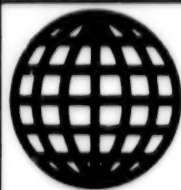


JPRS-CAR-89-032

10 APRIL 1989



**FOREIGN  
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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-89-032

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10 APRIL 1989

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## GENERAL

### Reasons Suggested for Success of European Security, Cooperation Meeting

40050315 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 6, 6 Feb; No 7, 13 Feb 89 pp 44-45

[Article by Xiao Li 5618 0500: "Important Breakthrough in History of European East-West Relations"]

[Text] After difficulties and setbacks, the continuation of the European Security and Cooperation Conference (the third round) ultimately achieved the "Vienna Final Documents" on 15 January, which has been called "an important breakthrough in the history of post-war European East-West relations," and "headed toward a qualitatively new milestone for Europe."

The Conference in Vienna opened on 4 November 1986 with representatives from 33 participating countries in Europe, and the United States and Canada. Its greatest contribution to the course of European security lies in making an opening for European detente and future progress. It concluded the cold war "inflexibility" of the post-war period, halted antagonism and confrontation, and established a brand new foundation for dialogue and cooperation between the two opposing systems of East and West in Europe.

The breakthroughs in East-West relations of the Vienna round are mainly concentrated in the two major areas of perennial intense conflict and differing world views, i.e., disarmament and human rights.

In the areas of security and disarmament, after 40-odd years of confrontation, the two great military alliances of the Warsaw Pact and NATO in the end dropped their mutually intense contention and desire to weaken their opponent's position, and exhibited more flexibility. They wish to expand confidence building measures, and seek to establish a low-level conventional balance to maintain European peace and stability. Following fierce bargaining, the two sides finally came to an agreement. They decided to hold negotiations on Europe-based confidence-building measures (at the second round of talks in Stockholm) from March of this year in Vienna with 35 member countries of the European Security Conference to discuss in detail military manoeuvre bulletins, mutual dispatch of inspectors, as well as verification, inspections, and other confidence-building measures. The 23 member countries of the Warsaw Pact and NATO will concurrently negotiate on conventional disarmament in Europe, elimination of existing imbalances, allowing neither side to have surprise attack launch or large-scale attack capability, thereby expanding conventional disarmament negotiations from central Europe to all of Europe (from the Atlantic Ocean to the Urals) and realizing the exchange of military strength information and on-the-spot verification measures.

With regard to human rights, the major breakthroughs were in recognizing more human rights and basic freedoms, and also in making broader and more specific stipulations about personnel exchanges and other matters. The Soviet Union and Eastern Europe changed their former evasion and denial regarding human rights issues, recognizing all the stipulations of the "final documents" on human rights. The pertinent documents strengthened human rights and basic freedoms including ideology, morality, religion, and beliefs, believing them to be the most important factors for peace, justice, and security. In addition, for the first time they clearly stipulated the right to religious freedom and freedom of belief, and self-autonomy, protection of minority interests, and guaranteeing the right of individuals to freely migrate, leaving the country and return home. They also enhanced several dozen new stipulations and improved those regarding personnel exchanges and reuniting families in the Helsinki human rights inspection activities. This round also set up a human rights inspection organ called the "European Security Conference Human Rights Scale." For the first time, Eastern European countries will allow the West to carry out a certain degree of human rights inspections through this organization. The round conference decided to hold three human rights conferences in 1989, 1990, and 1991, at Paris, Copenhagen, and Moscow, respectively, in order to carry out continuous inspections to improve human rights.

In addition, a series of decisions were made at the conference regarding promotion of East-West trade, boosted economic and industrial technology cooperation, development of environmental protection, communications, and tourism. The conference also decided to hold a sixth round of talks on economic environmental protection and cultural exchange prior to the Helsinki fourth round of the conference in 1992.

The road to European security and cooperation is long and formidable. Some 14 years have already passed since its Helsinki conference in 1975. The first Helsinki European Security Conference determined the post-war boundaries of Europe, acknowledged the contemporary realities existing in the East and West and signaled the "final documents." It also stipulated details about basic principles and European security, human rights, economic cooperation, further rounds, etc., marking the start of detente in Europe. Its background was the long period of the cold war between East and West. At the two rounds in Belgrade (1977-78) and Madrid (1980-83), neither side would yield and there were no substantive gains due to poorer U.S.-USSR relations, greater antagonism, the Soviet invasion of Afghanistan, and pointed opposition between NATO and the Warsaw Pact.

This Vienna round attained success in the late 1980s at a time of improved U.S.-USSR relations, an international trend of detente, and dialogue replacing antagonism. The long-term post-war confrontation and spiraling arms race between the United States and the USSR has taken a heavy economic toll. Reality compels them

to revise strategies, reduce the arms race, and seek peace through detente, in order to develop overall national strength to support their superpower status. With reference to this round, the following several factors accounted for its success:

First, better dialogue, seeking common ground while reserving differences, and improved relations. In the 170 suggestions made during bilateral talks, in particular, on the issues of disarmament and human rights, both sides expressed the desire and determination to cooperate. The Soviet Union and the United States worked to make the conference conclude on time. Toward the end of the round, Romania refused to recognize the stipulations in the "final documents" regarding human rights. Greece and Turkey disputed the geographical scope of conventional disarmament. The Soviet Union stressed "mutual security of the East and West," advocating military equipment reductions to "rational levels," unilaterally promulgating disarmament of 500,000 troops. It also decided to pull out some short-range nuclear weapons from Eastern Europe. It further basically accepted NATO's proposal in preparatory talks on the conventional disarmament of Europe.

Second, the Soviet Union and certain Eastern European countries changed their attitudes toward the human rights issue, opening the forbidden zone on human rights. The Soviet Union won the confidence of the West to a certain extent by proposing a series of measures such as convening a human rights conference in Moscow, striving to respect human rights at home, the release of 600 political prisoners, easier border exit and entry of people to reunite families, and the cessation of interference on Western broadcasts.

Third, bloc consciousness is weakening. The period of member countries in one bloc "speaking in one voice" has passed. Relations between countries of different blocs are gaining ground.

Fourth, central European countries and nonaligned states are taking the role of bridges for and positively restructuring East-West relations.

The progress achieved at the Vienna round of conference is advantageous to better understanding and cooperation between East and West. Yet, reality tells people that the many years of estrangement between the two sides since the war and the huge gaps in perception and attitudes cannot be eliminated in a short time. The European Security Conference still faces various tests. Since there are different value judgments and political standards on each side, it is difficult to reach unanimity on the human rights issue. This is reflected in Romania's maintenance of a reserved stance regarding the portions on human rights in the "final documents," the West's reservations about participating in the Moscow human rights conference, and its suggestion to tear down the Berlin Wall. Many challenges confront the negotiations on reducing conventional weapons in Europe with reference to the

matter of determining existing bilateral military forces since they involve a broad region, complicated types of weaponry, and difficulties regarding verification.

In sum, the post-war solid ice of confrontation in Europe is thawing. The East and West are strengthening efforts to seek cooperation and dialogue on a new basis. Although the process of detente in Europe is fraught with difficulties, it is with a positive direction.

#### **1988 Termed 'Turning Point' in International Affairs**

40050401 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 1, 8 Jan 89 pp 3-6

[Article by Chen Qimao 7115 0796 2021: "A New Stage of Relative Detente Has Emerged in World Affairs"]

[Text] 1988 marked a turning point in the postwar international situation, a year that brought greater hope and brighter prospects to the people of the world.

Shortly after World War II ended, even before the ruins of the war were cleared, the Cold War between East and West began as symbolized by Winston Churchill's speech in Fulton in 1945. In the late 1950's, as two heavily armed military blocs, NATO and the Warsaw Pact, began their confrontation, so did the United States-Soviet arms race, which revolved around nuclear weapons. The arms race intensified over time, so much so that the combined nuclear arsenals of the United States and the Soviet Union could destroy all mankind a dozen times over. For many years the people of the world lived under the shadow of a nuclear catastrophe. While no hot war broke out between East and West, there was a succession of crises—the Berlin crisis, Cuban crisis, and Middle East crisis. The two superpowers were at swords point, ready to go to war at any moment. Elsewhere in the world, one local war followed another in an endless parade. During the 1970's, there was a period of detente in East-West relations and the two superpowers concluded two SALT agreements. However, not only did the accords fail to prevent the arms race from worsening, but detente itself came to an end in the wake of the Soviet invasion of Afghanistan. Meanwhile, for a variety of reasons, regional conflicts expanded and intensified, a situation which lasted until about 2 years ago. In 1987, the United States and Soviet Union concluded a treaty on intermediate-range nuclear forces [INF], a demonstration of the substantial progress in arms control negotiations and a measure of the improvement of U.S.-Soviet relations. This moderating trend in bilateral relations, which will continue in 1989, marks a turning-point in the entire international situation.

Looking back at year end, we see that a string of positive developments did take place in the global situation in the past year.



### **U.S.-Soviet Dialogue Gains Momentum; East-West Relations Further Improve**

The U.S.-Soviet dialogue continued to gain momentum in the past year. In late May and early June, Reagan visited Moscow and held talks with Gorbachev in the fourth U.S.-Soviet summit since November 1985. The two sides exchanged documents ratifying the INF treaty and signed a number of minor agreements aimed at building trust and improving bilateral relations. Although the latest summit produced no new breakthroughs in arms control, frequent meetings between the two top leaders suggest that the dialogue has become a well-established practice, which is significant in itself. After the summit, the two sides have been gradually dismantling intermediate-range nuclear weapons under each other's supervision. Some progress was also made in talks aimed at cutting strategic nuclear weapons by half and banning chemical weapons. Gorbachev has also announced at a session of the United Nations General Assembly that Moscow would unilaterally reduce Soviet armed forces by half a million within 2 years, order deep cuts in conventional weapons, withdraw some troops from the GDR, Czechoslovakia, and Hungary, and remove a major portion of its forces from the Mongolian People's Republic. While Gorbachev's proposals would do nothing to alter the overwhelming superiority of the Warsaw Pact in conventional forces vis-a-vis NATO, they represent a major step forward in U.S.-Soviet arms control negotiations and would help ease East-West relations further. Accordingly, they have been welcomed by world opinion.

The improvement in U.S.-Soviet relations has led to a thaw in East-West relations overall. Between East and West contacts have been active and frequent. In July, the EC and CEMA signed an agreement ending years of mutual nonrecognition. Unlike the last two Olympic Games, the 24th Olympiad held in Seoul last September featured athletes from 160 nations and regions, including all the major powers, making it the largest Olympic Games in history. This was yet another sign that the international situation has improved.

After Soviet Armenia was hit by a severe earthquake, the United States, West Germany, Japan, and even Israel extended a helping hand. This too mirrored the change in the global macroclimate.

### **Chain Reaction in Regional Conflicts—The Trend Toward Seeking Political Solutions**

Another major development in the world in 1988 was that for the first time since World War II, there was a trend toward seeking a political settlement to the endless regional conflicts. In a significant breakthrough, the Soviet Union began withdrawing its troops from Afghanistan on 15 May. Although the Afghan resistance forces and Kabul remain deeply divided, fighting has not stopped, and the Soviet military withdrawal timetable has met some delays, it seems that all Soviet troops

would be out of Afghanistan by next February as scheduled. Another important development was the achievement of a cease-fire in the 8-year Iran-Iraq War. While the two countries have made no headway in talks under the auspices of the United Nations Secretary General, they have scrupulously abided by UN Resolution 598 and no new clashes have occurred. At year end, good news came from New York: through the mediation of the United States and Soviet Union and after grueling negotiations, Angola, Cuba, and South Africa finally hammered out an accord on Namibian independence and Cuban withdrawal from Angola, thereby ending the 13-year war in southern Africa and bringing independence within reach for the Namibian people. After the Soviet Union began withdrawing from Afghanistan, Vietnam's invasion of Cambodia stood out even more glaringly. Vietnam still resorts to tricks and schemes to delay troop withdrawal and tries to continue to control Cambodia through the Phnom Penh regime. The trend of the times being what it is, it would have no choice but to pull out its forces sooner or later within the next couple of years. The prospects for a political solution to the Cambodian issue are getting brighter and brighter. A major turning point has been reached in the Middle East as well recently, the most protracted, complex and divisive conflict since World War II. Choosing peace negotiations, the Palestine Liberation Organization [PLO] has accepted UN Resolutions 244, 338, and 181. It has declared the formation of a Palestinian state, at the same time accepting Israel's right to exist. America's decision to enter into a dialogue with the PLO has also raised hopes for a peaceful settlement in the region. After the New Year cease-fire, the dialogue between the Nicaraguan government and antigovernment forces has stalled. Both sides are awaiting new moves by the incoming Bush Administration in the United States. The warming trend in international relations has also produced headway in the search for a political solution in a number of "secondary hot spots" such as western Sahara, Chad, and Cyprus, where the UN has been playing an important role in resolving the conflicts there. From an indecisive and inactive international forum, the UN has grown into an authoritative organization with tangible contributions to international peace and security. This is yet another vital and favorable development in the postwar international relations.

### **Democracy Makes Gains in Asia and Other Regions**

Another notable development in the world this past year has been the marked success achieved by democratic movements in a number of Asian countries. Following the overthrow in the Philippines of the Marcos regime by a people's movement and a change of allegiance by the military in February 1986, the Chun Doo Hwan military dictatorship in South Korea was also forced out of power in a storm of public protest early this year. Roh Tae Woo was elected president by a majority of votes. As we all know, the successive changes in regime in South Korea over the past 40 years were marked by bloody massacres. The fall of Chun Doo Hwan and the rise to power of Roe

Tae Woo were the first peaceful transition of power through the ballot box in South Korean history. One cannot but regard this as a major step forward on the road toward democracy. Recently Chun Doo Hwan confessed his crimes to the people publicly, turned over part of his property, and withdrew from political life, another measure of the irreversibility of the democratic process. In Pakistan, a general election was held shortly after President Zia ul-Haq was killed. The opposition People's Party won a plurality of the votes and Benazir Bhutto became prime minister. This smooth transition of power was another important sign of the progress of democratization. The tidal wave of democracy in Asia hit another high in Burma, where an antidictatorship democratic movement broke out like a sudden rainstorm. While the movement has encountered setbacks, the strong demand of the Burmese people for democracy will finally overcome all barriers and march forward. In Latin America, the Chilean people voted in a referendum in October to decide whether or not President Pinochet should serve another 8-year term. After weighing the issue carefully, the Chilean people rejected military rule that has lasted a long 15 years and took one step closer to democracy.

#### **Reform In Socialist Countries Moving Ahead Amid Difficulties**

The Soviet Union paid special attention to political structural reform in the past year. Both party and government leadership were reshuffled at the 19th national conference of the CPSU, a plenum of the CPSU Central Committee, and a special session of the Supreme Soviet. These meetings consolidated Gorbachev's reform line as the dominant force and adopted key resolutions on political restructuring, creating favorable conditions for further reform. The fledgling Soviet economic reform, on the other hand, has failed to make notable progress. The economy has not changed significantly for the better and severe food shortages remain. At present the Soviet leadership is going all out to get a grip on agricultural reform and trying hard to transform agricultural production through the widespread adoption of leasing and contract systems. Another outstanding domestic problem in the Soviet Union is the question of minority nationalities. Even before public demonstrations in Armenia demanding the incorporation of Nagorny-Karabakh, a region of the Azerbaijan Republic now inhabited by Armenians, into Armenia have died down, signs of unrest have appeared in the three Baltic republics, annexed by the Soviet Union on the eve of World War II. New complications have emerged in the reforms in some Eastern European nations. In Yugoslavia, inflation has shot up to three digits. In Poland, the economic reform begun early this year has not been smooth sailing. The macroeconomy got out of control, prices have skyrocketed, and the people are unhappy. Massive strikes and demonstrations have broken out in Yugoslavia, Poland, Hungary, and Romania. In light of this situation, Eastern European nations have tackled political reform and revamped the leadership in an attempt to

shore up economic reform through political reform. At the same time, they are pushing ahead with economic reform in their own special ways. Poland and Hungary, for instance, took pains to stabilize the economy, control inflation, and improve their international balance of payments. Hungary made the diversification of ownership the heart of reform and moved to further separate ownership from management. Czechoslovakia concentrated on internal enterprise structural reforms. In China, the economy has been expanding briskly at 17 percent since the beginning of this year. Economic overheating has led to serious inflation. In September, the 3d plenum of the 13th CPC Central Committee decided to focus on improving the economic environment, rectifying the economic order, and intensifying enterprise reform in the next 2 years. The decision has been carried out vigorously and firmly across the nation and has begun to pay off in the last 3 months.

#### **Western Economies Stronger Than Forecast; North-South Gap Continues To Widen**

After the stock market crash of October 1987, there was widespread concern about the Western nations' economic outlook for 1988. It was believed that economic growth would slow down further. Over the past year, however, the economies of the Western nations turned out to have done better than forecast, growing at the fastest rate for 10 years. According to the November forecast of OECD, international trade would increase 8.75 percent in 1988 and the economies of Western developed nations would grow 4 percent. In the United States, for instance, the projected economic growth rate is 3.8 percent, with inflation rising 3.25 percent. In October, the unemployment rate fell to 5.4 percent, the lowest since June 1974. The foreign trade deficit also dropped. This favorable economic situation was a major factor behind the victory of George Bush in the presidential election. Nevertheless, the United States still ran up a \$155.1 billion budget deficit in the 1988 fiscal year, an increase of 3.6 percent over the year before. Thus the budget deficit remains a hidden peril to future economic expansion. Japan has successfully overcome the difficulties resulting from the appreciation of the yen and has made substantial progress in shifting from an export-led economy to one driven by domestic demand. Japan's economy is projected to expand 3.5 to 4.5 percent in 1988, while its foreign trade surplus will still be a high \$78 billion. Trade frictions with United States and many European and Asian nations will continue. Western Europe is in the midst of a major push for market integration by 1992 and has had considerable success in internal unification in the past year, having tackled 100 and more of the 286 issues that must be resolved to create a single market. Economic growth rate there is projected to hit 3.5 percent, also a record in the past decade. Polarization has sharpened in the Third World. In Asia, the "four little dragons" and ASEAN have had striking economic growth. The projected growth rates of South Korea, Taiwan, Singapore, and Hong Kong for 1988 are 11-12 percent, 6-8 percent, 9.5-11 percent, and

5-7 percent, respectively. Of the ASEAN nations, Thailand has done best, with a projected growth rate of 10 to 11 percent in 1988, approaching that of South Korea. It is estimated that the Malaysian and Philippine economies would grow 6-8 percent and 5.5-6.5 percent, respectively, both higher than last year's figures. On the other hand, a majority of developing countries are still in economic dire straits. The debt burden of Latin America and Africa is increasing, not decreasing. Natural disasters in the past year have led to a drop in world food output, worsening the economic situation of many countries. The prolonged slump in oil prices has also caused substantial losses to oil-producing countries. By and large the North-South gap has widened further.

#### **New Changes in the Political and Economic Situation in the Asian Pacific Region**

Following the thaw in U.S.-Soviet relations and the shift in the entire international situation, the four-sided relationship among the United States, the Soviet Union, China, and Japan is undergoing new changes. To counter Japan's aggressive economic offensive and the emergence of an united Western European market in 1992, the United States is planning to create an integrated North American market. It signed a free trade agreement with Canada, which went into effect in January 1989 after being approved by the legislatures of both countries. Right now it is negotiating a free trade agreement with Mexico. Meanwhile, the United States is also hard at work consolidating its relations with the nations concerned in the Asian Pacific region in an attempt to maintain and strengthen its military, economic, and political influence there. Japan has become the largest economic superpower after the United States and the world's leading creditor nation as well as the country with the most overseas assets. As America seeks to put together a unified North American market and Western Europe prepares to integrate its markets, Japan too is anxious to fight back. Judging from the plan for an Asian Pacific free trade zone drafted by the International Economic Office of the Economic Review Council, Prime Minister Takeshita's think-tank, it seems that Japan's intent is to create an East Asian sphere centered on Japan that would include Asia's "four little dragons" and ASEAN. The Soviet Union too is paying closer and closer attention to Asian Pacific affairs. In 1986 Gorbachev delivered a speech in Vladivostok outlining Moscow's Asian Pacific policy. Last September he made another key speech in Krasnoyarsk, a major city in Siberia, in which he put forward seven proposals for Asian Pacific security and appealed for closer economic cooperation. Soviet foreign officials have been busy visiting Asian Pacific nations in the past year. Foreign Minister Eduard Shevardnadze was in Japan recently, but because of the dispute over the four northern islands, there has been no breakthrough in Soviet-Japanese relations. During the past year, China continued its independent peaceful foreign policy and has made new progress. China and the United States have just celebrated the 10th anniversary of the establishment of diplomatic

relations, which has continued to develop steadily. In late August, Prime Minister Takeshita of Japan paid a successful visit to China, marking a significant improvement in Sino-Japanese relations. Particularly noteworthy is the improvement in Sino-Soviet relations last year. In December, Foreign Minister Qian Qichen [6929 0366 3819] paid a successful visit to the Soviet Union, signaling the beginning of the normalization of bilateral relations. Soon Soviet Foreign Minister Shevardnadze will visit China at the latter's invitation. These visits will pave the way for the Sino-Soviet summit. The thaw in Sino-Soviet relations has attracted worldwide attention. There is general agreement that the normalization of Sino-Soviet relations on the basis of the five basic principles of peaceful coexistence would greatly enhance world stability and peace. Prime Minister Rajiv Gandhi of India visited China at year end, the first Indian prime minister to do so since 1954. The two sides held talks and issued a communique declaring that they would resume and further friendly bilateral relations on the basis of the five basic principles of peaceful coexistence and would use friendly peaceful means to settle their border dispute. Since China and India together account for one third of the world's population, an improvement in their relations can only be a powerful force for peace in the Asian Pacific region and throughout the world.

Surveying the situation over the past year, we can arrive at this conclusion from a mass of facts: the international situation to date is indeed shifting from confrontation to detente, from tension to relaxation. The international order formed after World War II is undergoing profound and historical changes of turning-point significance. The world is entering a new stage of relative detente. Certainly, superpower confrontation still exists and the United States and Soviet Union still consider each other their principal adversary and threat. Nevertheless, the momentum of dialogue has clearly strengthened and overpowered confrontation. Besides, even the forms of confrontation have changed. While the arms race is still on, it is now of secondary importance. A comprehensive national competition, of which technical and economic competition is a major part, has become the primary form of international confrontation. This turn of events is the result of the transformation of the world situation over the past 40 years. It is also the result of the long struggle by peace-loving people around the world and the repeated setbacks of hegemonistic power politics. What has directly caused this change is the decline in the power of both the United States and the Soviet Union and rising world polarization. To improve their economic position and resolve the many problems that have piled up at home, both superpowers need detente. For this reason, the new stage of relative detente can be expected to last for some time, at least till the end of the century.

The trend toward detente is expected to continue into 1989. The United States and Soviet Union will continue their tough dialogue and hard bargaining revolving around the reduction of strategic nuclear weapons and



conventional forces in Europe. The prospects for new breakthroughs look good. Given the macroclimate of international detente, regional conflicts also may make fresh headway toward a political solution. After an intricate political struggle and diplomatic mediation, the Cambodian issue may be resolved. We may see some progress in the Middle East peace talks. But since Israel still stubbornly clings to its expansionist position, the United States continues to be partial to Israel, and divisions remain between Arab nations and even within the PLO, the Middle Eastern question cannot be resolved in the near future. Economic growth in Western developed nations in 1989 will be slower than a year ago, trade frictions will remain, and the competition for markets and high-tech superiority will be even more ferocious. In the Third World, with the exception of some nations and regions in Asia which will continue to do well, most nations, particularly those whose primary products are raw materials, will remain in an economic bind.

1989 will be noteworthy for a number of important events. First, will the Soviet Union make significant progress in economic reform, particularly agricultural reform, now that it has scored successes in political structural reform and diplomacy? The answer will have an impact on Gorbachev's reform enterprise and the Soviet Union's internal and foreign policies. Second, how will the Bush Administration reshape economic policies to deal with the double deficits? This will greatly influence of the economies of the West and even those of the world. Third, the Sino-Soviet summit and the normalization of Sino-Soviet relations will be a major event affecting the Asian Pacific region and the world as a whole. In short, the world situation in 1989 will continue to develop in the direction of long-term detente, which by and large will benefit China's reform and open policies and four modernizations. But sharpening competition in science and technology will also put us under tremendous pressure and the danger of being left out in the cold will become more and more real. We should grab the opportune moment to turn pressure into a driving force and crisis into an opportunity, review our experience in earnest, and do our best to put the economy on a stable and sound footing and improve our scientific and technical education to the extent that for a change, we can win the great international comprehensive competition at the end of this century and the beginning of the next.

Note: The Soviet Union flagrantly invaded Afghanistan in late 1979, touching off strong worldwide condemnation. Sixty one nations, including the United States and China, boycotted the 22d Olympic Games held in Moscow the following year. To retaliate against the American-led boycott of 1980, the Soviet Union boycotted the 1984 Olympic Games in Los Angeles, its excuse being that anti-Soviet policies on the part of the United States made it impossible for Moscow to participate. Immediately countries in Eastern Europe (with the exception of Romania), Vietnam, and Cuba also announced in succession that they would not participate in the games.

## NORTHEAST ASIA

### Caution Issued Regarding Japanese Rearmament

40050306 Beijing GUOJI WENTI YANJIU  
[INTERNATIONAL STUDIES] in Chinese  
No 1, 13 Jan 89 pp 20-25

[Article by Ge Gengfu 2047 2577 1133: "Changes in the Development of Japan's Defense Policy and Defense Capabilities"]

[Text] Accompanying the steady growth of Japan's national economic strength and changes in the international situation has been marked changes in Japan's defense policy and defense capabilities. The Japanese government's proposal of a new strategic concept, its decision to expand the scope of its defense, to enlarge its military forces, increase defense expenditures, and accelerate military science and technology research, as well as its consideration to revising the constitution, etc. have aroused much controversy and reaction both inside Japan and internationally.

## I

Following World War I, Japan rose from the ruins of military defeat to become an economic power second only to the United States in the capitalist world. Japan's gross national product exceeds \$2 trillion, equal to the combined total gross national product of the FRG, France, and the UK. In 1987, Japan's gross national product per capita was higher than America's (at \$19,642 for Japan, and \$18,403 for the United States). When the United States sank from its position as the world's richest country to the world's largest debtor nation, Japan leaped ahead to become the world's largest creditor nation, its external net assets amounting to approximately \$240 billion as of the end of 1987. The United States' annual trade deficit stands at \$150 billion, while Japan has the largest trade surplus, its annual surplus exceeding \$100 billion. One-third of America's financial deficit is financed with Japanese funds, and the penetration of America by Japanese capital is becoming increasingly strong. During the last half of 1987, 435 American companies were completely or wholly Japanese owned; and the 10 largest banks in the world were also Japanese. Today, Japan is not only an economic power, but a major world financial power as well. With the steady growth of Japan's national economic strength and development of the political and military situation in Japan and abroad, after a rather long period of groping, Japan's ruling Liberal Democratic Party and the government of Japan have revised the previous line of "emphasizing the economy while slighting military preparedness," to propose a new strategic concept. At the end of the 1970's, Japan's Ohira cabinet proposed a "comprehensive security guarantee strategy," which emphasized that "security guarantee policy must be based on overall results of many different measures." It advocated active protection of the Japanese-American cooperation system and increasing defense capabilities,

and it acknowledged that in view of changes in Japan's political and military situations, the strengthening of defense capabilities has become "an extremely important goal to be attained." In 1983, Yasuhiro Nakasone came to power. He proposed that Japan should move from being an "economic power" toward being a "political power." He emphasized that safeguarding Japan's security, improving its international standing, and strengthening its military capabilities are important ingredients in the readjustment of Japan's national strategy. After Noboru Takeshita became prime minister, he emphasized that Japan should develop a "master diplomacy" that reflects its independence, "make a contribution to the world" in every way, particularly economically, and accelerate movement toward becoming a major political power in the world, making defense policy and defense capability proposals in this regard. At graduation ceremonies for Japan Defense University cadets on 21 March, Takeshita said that Japan has to strive for defense capabilities that are in keeping with national strength. He also said that containment capabilities founded on a balance of power that includes nuclear weapons is a guarantee of world peace and security. We have to face up to grim realities, and we must seek a properly equipped high quality defense force. This reflected the newest Japanese thinking about the readjustment of its defense policies and the development of its defense capabilities.

## II

The post-war Japanese government has consistently adhered to the principle of "defense in place," strictly limiting defense to Japan's soil, and making defense against the entry of enemy forces into the country and the occupation of strategic areas the guiding thought for defensive warfare. In recent years, major changes have taken place in Japan's defense policy and its strategic plans for "defense in place." The scope of defense has been broadened, and the principle of "defense in place" has begun to be breached. After Nakasone took control of the government, he emphasized building Japan into an unsinkable aircraft carrier, and made insuring the security of the seas within 100 nautical miles of Japan, and shipping lines for 1,000 nautical miles a formal part of the defense sphere. This plan, together with the wartime closing of the straits of Soya, Tsugaru, and Tsushima, would be defense goals. Nakasone's government also indicated that "self defense actions" even beyond 1,000 nautical miles are also permitted by the constitution. Not only did this greatly expand Japan's sphere of defense, but it also exceeded the applicable sphere of the Japan-America security treaty. The guiding thought about combat changed from passively meeting an enemy attack to serious attention to pre-combat preparations and achieving victory early in the war; from the idea of annihilating the enemy on the beaches, to annihilating the enemy at sea; and from combat in coastal waters to combat on the high seas. In short, the Nakasone government changed the policy of combat on Japan's soil, and affirmed the strategic idea of stopping

the enemy outside of Japan. It also sought to develop Japan's combat posture from "interception on the beaches" toward "destruction at sea." Takeshita's cabinet continued and developed the foregoing policies and guiding thought of the Nakasone cabinet.

At the same time, Japan's military capabilities were also expanding steadily and growing stronger. Since the middle of the 1970's, Japan has striven to increase its defense capabilities. Japan's defense forces, which have been in being for more than 30 years, are fairly large and equipped with fairly advanced weaponry. In accordance with the guidelines set in the "Defense Plan Program" promulgated in 1976, Japan is able to build a basic defense capability that "can maintain a full alert posture in peacetime, and that can effectively deal with small scale limited aggression." A major revision of this program was made in 1984, when it was held that changes in the international climate during the last half of the 1970's required that Japan restudy and strengthen its defense capabilities. Currently, the strength of Japan's defense forces totals fewer than 300,000 men, but their equipment is excellent, their training is thorough, and their strength is appreciable. In the army, the navy, and the air force, there are a large number of officers and a small number of enlisted men, so that strength can be rapidly increased suddenly. The Ground Self Defense Force has 180,000 men, more than 1,000 tanks, and 300 rocket launchers of various kinds. The Maritime Self Defense Force has approximately 45,000 men and 165 vessels of various kinds totaling 265,000 tons, and 155 aircraft. The Air Self Defense force numbers 45,000 men, 350 combat aircraft, and 180 ground-to-air missile launchers. According to Defense Agency equipment development plans, during the early part of the 1990's, Japan will build more than 30 vessels, and will purchase more than 100 combat aircraft, as well as airborne early warning aircraft, airborne refuelling aircraft, anti-submarine reconnaissance aircraft, "Zeus Shield" missile destroyers, and over-the-horizon radar capable of detecting targets 3,000 kilometers away. Japan will also produce jointly with the United States the next generation FSX fighter plane, which has an operating radius two times again that of existing planes, reaching 840 kilometers. In 1987, operating expenses for developmental projects by the Defense Technology Research Headquarters of the Japan Defense Agency were spent on aircraft, missiles, ships, and land-based electronics, with nearly 50 percent going to missiles. Since the last quarter of 1988, expenditures for support fighter aircraft research and development has increased tremendously. The Ground Self Defense Force has decided to equip itself with a new type armored combat vehicle in 1989. This new type armored combat vehicle is equipped with a 35 millimeter cannon, and a Model 79 anti-ship, anti-tank guided missile having a range of 3,000 meters. This armored combat vehicle's "assault capability is markedly higher" than previous armored vehicles. This new armored combat vehicle, together with the Model SSM-87 self-propelled anti-aircraft cannon, the next generation main force tank, and the Model 87 anti-tank missile



are considered to be the "five big items" in the development plans of Japan's land defense force. In addition, the Japanese Defense Agency has decided that beginning in 1989, it will use a new type tank, which is to be known as the Model 89 tank. It will carry a 120 mm anti-tank gun. It will be more powerful than the Model 74 tank with a speed of up to 70 kilometers per hour. Thus, the Self Defense Agency's combat capabilities will be tremendously increased. U.S. Assistant Secretary of Defense Richard L. Armitage said that by 1990 Japan will have 200 F-15 and 100 F-4 jet fighters, and this will "be more than the total number of aircraft that the U.S. Air Force has in Japan, South Korea, and the Philippines." The Maritime Self Defense Force will have 60 destroyers and 100 P-3-C anti-submarine reconnaissance aircraft, "nearly three and five times respectively the number of destroyers and anti-submarine aircraft in the entire American Seventh Fleet."

### III

In recent years, the Japanese government has also taken active measures to increase defense expenditures, and accelerate military scientific and technical research, thereby setting the stage for faster future development of its military capabilities.

Because of the high speed development of Japan's economy and the tremendous growth in gross national product since the 1960's, Japan's defense expenditures declined as a percentage of gross national product, remaining within 1 percent of gross national product. After Takeshita became prime minister, he began an expansion of military preparedness in pursuit of his "post-war complete political accounting" plan in coordination with the United States' strategy toward the USSR. In July 1985, he proposed breaking the limit of not exceeding 1 percent of gross national product, substituting an announcement of total expenditures to be made for defense during a 5 year period. Expenditures during the 5 year period 1986 through 1990 for the defense force reorganization and outfitting plan would total ¥18.4 trillion of which defense expenditures for 1988 would be ¥3,735,400,000,000, 6.2 percent more than the previous year or 1.013 percent of the gross national product for the year. After 1987, the 1 percent of gross national product figure would continue to be broken. Although the amount by which the percentage would be broken would not be much, the significance lay in "breaking" it.

Japan is a major economic power with a large gross national product base figure and a large rate of increase. Therefore, even if defense expenditures are held at 1 percent of gross national product, both the speed of increase and the absolute figures will be substantial. On 12 March 1988, in a talk to the Budget Committee of the Diet in which he compared defense expenditures with those of other countries, the director general of the Japanese Defense Agency said that Japan "may place behind the United States, the USSR, the UK, the FRG,

and France" as sixth in the world. Even though Japan's defense expenditures statistical method differs from NATO's in that it does not include pensions for old military personnel and expenditures for the Maritime Self Defense Force, when calculated according to the statistical methods used by NATO and the United States, Japan's defense expenditures are greater than those of the UK, France and the FRG, and less than those of the United States and the USSR for third place in the world.

Additionally, Japanese newspapers and magazines have reported that the Japanese Defense Agency has decided to ask the Ministry of Finance to increase defense expenditures by 7 percent when it draws up the 1989 government budget. A 7 percent increase will mean defense expenditures of ¥3,959,300,000,000 for Japan (or approximately \$29.7 billion.)

Recently, a Japanese defense expert said that Japan is already an economic superpower in position to exert influence on others; however, Japan is everywhere a small military power subject to the control of others. It is an unequal power; therefore, Japan has no choice but to increase its military strength. Though Japan already spends \$30 billion on defense, this is far from enough. Over the next 10 years, the rate of increase in Japan's defense expenditures should be maintained at 6 percent, or 1.5 percent of gross national product.

Another report says that in Japan's 1981 budget, military expenditures increased more than social support expenditures. During the 8 year period 1981 through 1988, the Japanese budget for welfare, medium and small businesses, and agriculture was greatly reduced, while during the same period, military expenditures increased between 5 and 7 percent. If 1982 is used as the base year, military expenditures for 1988 increased 43.1 percent, while social support payments increased only 14.3 percent.

Of course, one must also realize that changes in the development of Japan's defense policy and defense capabilities are related to America's request of many years standing that Japan increase its military expenditures and share defense.

### IV

Japan's science and technology is quite well developed. In many categories of highly sophisticated technology, in particular, it is ahead of the United States. Its electronics industry is the envy of every nation in the world. A June 1984 U.S. Department of Defense report termed 16 areas of Japanese technology, such as integrated circuits, optical fibers, communications, microwaves, image identification, and rocket propulsion as "technology of interest to the United States." A report from the U.S. Science Foundation also said that Japan is already first rate in technological innovation. One U.S. Defense Department official said, "Japan has become a power in

military technology" because sophisticated technology such as electronics and communications has begun to become play the main role in weaponry.

Experts estimate that there are 23 sophisticated science and technology fields in the world today, and that Japan is superior in 16 of them, and is relatively superior in another four. The United States is superior in eight fields, and is relatively superior in another 15. The USSR is superior in only three fields, and is backward in all the other fields. This shows that Japan is clearly dominant in highly sophisticated scientific and technical fields, and the rapid development of sophisticated science and technology will enable the very rapid translation of science and technology into productivity, which will also be more rapidly translated into military power.

In addition to its huge potential in basic industries such as iron and steel, motor vehicles, and shipbuilding, Japan's nuclear industry technology and space technology is also substantially developed. Japan began research on atomic energy in 1954. By 1966 its nuclear electric power generation was already at the application stage, and in 1972, it built the first nuclear-powered merchant ship. Today it has more than 30 nuclear electric power stations in operation, and more than 610 nuclear energy research units and institutions. Japan's nuclear power generating capacity is already greater than its petroleum, and thermal power generation capacity for first place in the country. It is behind only the United States, France, and the USSR for fourth place in the world. On the basis of the time and the scale of Japan's work on nuclear power, the USSR estimates that Japan may already have sufficient nuclear material to make 1,000 "Hiroshima level" atomic bombs. Japan has more than 10 years experience in reprocessing techniques, meaning that it possesses techniques for refining "plutonium atomic bomb" material, and has accumulated a substantial amount of plutonium. It also has experimental equipment for enriching uranium. Japan also possesses the high performance explosives control techniques that enable the instantaneous compression and detonation of plutonium or highly enriched uranium. Between the time it first began to operate in 1977 until 1985, Japan's first nuclear fuel reprocessing plant has processed a cumulative 258 tons of nuclear fuel. As a result, it has separated the plutonium from the spent nuclear fuel, and plutonium is the raw material for the fabrication of "plutonium atom bombs." Reportedly, Japan's potential for manufacturing nuclear weapons provides it the conditions for direct development of "super nuclear weapons." This is because Japan holds dominance in many of the technologies, such as microelectronics, computer technology, and laser technology basic to the development of super nuclear weapons.

Japan has engaged in research on small rockets since 1955, and has now successfully developed eight different models of launch rockets that have lofted more than 30 satellites into the skies. In 1981, Japan used its N-II

rocket to place an experimental satellite and a communications satellite into a pre-set orbit. The N-II rocket has an effective launch capacity of 350 kilograms, and it can be immediately converted for use in firing intermediate range ballistic missiles. In addition, the model H-II, which is due to be completed in 1991 and will be able to carry a satellite weighing 2,000 kilograms, will be able to be used as a launcher for strategic missiles. According to recent information, substantial agreement has been reached between Japan and the United States to build a space base. The agreement provides that Japan is to share part of the burden for building a manned space station. This plan calls for the U.S. National Air and Space Agency to use the space shuttle to launch the space station in 1996, with Japan, Canada, and the EEC taking part. Japan is to provide a pressurized experimental cabin that protrudes from the space station. Japan is presently still engaged in research and development for a space shuttle. This marks the entry into a new stage for Japan's space flight technology.

In addition, Japan has broken the principle of "no participation in collective defense." In 1983, it decided to turn over military technology to the United States, and in 1986, it formally decided to take part in research on the American "strategic defense plan." In December 1985, Japan and the United States signed an agreement whereby the United States is to provide weapons technology. In September 1986, the Japanese government formally decided to provide the United States two kinds of technology, namely "missile guidance technology," and "technology for the building of supply ships." Inasmuch as the Japanese government announced that the technology it provides the United States may include trial production items, most people feel that the Japanese government's action has actually broken the "third principle prohibiting weapons exports."

According to a British DAILY TELEGRAPH report, numerous large Japanese businesses have become interested in munitions research and development. The weapons production of Japan's biggest munitions manufacturing company, the Mitsubishi Heavy Industry Company, accounted for 18 percent of the company's total business in 1987. This company plans to expand the amount of its production to 25 percent. The Nissan Motor Company also plans to increase its current munitions production of only 1 percent of total sales to 10 percent. The munitions production of companies like Mitsubishi, Kawasaki, and Toshiba is already developing into a highly sophisticated technology, missiles ranking as priority research and development items. TOKYO SHIMBUN reported that the Nissan Motor Company has public announced the production of weapons, principally missiles and rocket weapons. In recent years, stock shares for national defense industries have become "hot stuff" on the Tokyo stock exchange. Investors predict that munitions production will "play an increasingly important role" in the production of Japan's large businesses. Energetic expansion of munitions production can yield tremendous profits for Japanese big business. Reportedly, the Japanese Defense Agency spends

more than 90 percent of its military expenditures in country, and as a result numerous countries confidently predict profits from their munitions production will "increase steadily."

## V

Accompanying high speed economic growth has been the development within Japanese society of a new nationalist ideological trend, and among the ruling Liberal Democratic Party, from top to bottom, there are some who preach nationalism and great nation chauvinism. This ideological trend is manifested primarily in "neo-nationalism," which often appears in the speeches of some people in government, and which is still developing. Some Japanese public opinion maintains that the "neo-nationalism" is manifested mostly in strengthening of national identity, emphasis on the "spiritual authority" of the emperor, and instilling a "national defense consciousness." Some government ministers formally take part in worship at the Yasakuni Shrine in their official capacity, alter the content of textbooks, attempt to revise the constitution and the "national secrets law" proposal that the cabinet sent to the Diet, etc. Among these, it is the constitution revision issue that has a bearing on fundamental Japanese defense plans, and the direction in which military capabilities are to develop.

The present Japanese constitution was promulgated on 3 November 1946 and took effect on 3 May of the following year when Japan was under American occupation following its defeat. Article 9 of that constitution provides that the Japanese people "forever renounce war as a sovereign right of the nation," "land, sea, and air forces, as well as other war potential, will never be maintained," and "the right of belligerency of the state will not be recognized." Revision of the constitution is one of the goals proposed by Nakasone as part of his "post-war comprehensive political settlement." He also said that "revision of the constitution is an established policy." Using the slogans, "Revise the Constitution and Renew the Age," and "Correctly Understand the Problem With the Constitution," Japan's "Independent Constitution Citizens Conference," and its "League of Legislators for a Democratic Constitution" jointly held the 19th citizens conference for drawing up a democratic constitution in Tokyo on 3 May 1988. The head of these two organizations, (a former chief legislator), Kimura Mutsuo, said at the conference that the two organizations had drawn up a revision of the constitution. With regard to Article 9 of the present constitution, the two sections that read, "forever renounce war as a sovereign right of the nation," and "land, sea, and air forces, as well as other war potential, will never be maintained," are to be retained; however, a third section should be added to read, "the foregoing two prohibitions apply to aggressive warfare, threats to use armed force, or the use of armed force not permitted by international law; they do not prohibit self defense or the maintenance and use of military force to the limit required." This wording remedies the vagueness of the previous two sections.

Kimura also emphasized that "the present constitution was drawn up in accordance with the policies of the army of occupation with the intention of weakening Japan. Today, we want to build a new country, and re-adjust the mores of the times. This is our true intention."

The constitution aside, there are other laws, policies and principles based on the spirit of the constitution, primarily the following: 1. pursuit of a strategic policy of "defense in place," meaning resort to arms only when militarily attacked; resort to arms to be limited to the minimum required for self defense; and the armed forces maintained by the state must be limited to the minimum required for self defense. 2. Three conditions are to be met in the exercise of the right to self defense. Only when faced with aggression, when there is no other way to eradicate the aggression, and when resort to arms is only to the minimum extent can the right to self defense be exercised. 3. Collective self defense is denied, and it is prohibited to dispatch armed forces outside the country. 4. The possession and development of weapons such as intercontinental ballistic missiles and long range bombers capable of devastating other countries is prohibited. 5. Implementation of the "three nuclear free principles," namely, no maintenance, no manufacture, and no importation of nuclear weapons. 6. Implementation of the "three principles prohibiting weapons exports," namely, no export of weapons to socialist countries, to countries to which a United Nations resolution prohibits export, or to belligerent countries or countries that may become belligerents. 7. No military conscription system. 8. Institution of a system of "civilian officials control over the armed forces." 9. current self defense expenditures are to be limited to within 1 percent of gross national product.

As the international situation has changed and Japan's defense policies have transformed, the above provisions and principles have been broken in several regards. In addition to the defense expenditure issue, which is generally known, the tacit consent given to the berthing of American ships carrying nuclear weapons breaks the "three nuclear free principles." Agreement to turnover military technology to the United States breaks the "three principles prohibiting weapons exports." The announcement of convoying in ocean shipping lanes for 1,000 nautical miles, including convoying by American ships, violates the principle of not taking part in collective defense. The foregoing circumstances show that the constitution and some of the laws, policies, and principles based on the spirit of the constitution have gradually become dead letters, and their binding force weakened long ago. This is one of the consequences of the nationalist ideological trend running wild.

## VI

To summarize the foregoing, marked changes have taken place in Japan's defense policy and its defense capabilities. Japanese leaders and government have offered



many explanations, and they have even openly guaranteed that Japan positively will not become a military power, and will positively not take the old militarist road. On 29 July 1988, in a speech in which he gave his political views to an interim session of the 113th Japanese Diet, Prime Minister Takeshita emphasized establishment of an image of Japan as contributing to the world, and he proposed a three part international cooperation idea, namely the launching of cooperation for peace, strengthening international cultural exchanges, and expanding government developmental assistance. Some Japanese scholars and foreign scholars believe that because of the important changes that have taken place in Japan itself and in the international situation, Japan is restricted by various conditions and that it will not be able to take future actions that run against the tide of history. Even so, both inside and outside Japan, there are numerous different reactions and comments. In addition the stirring of militarism in Japan has deepened their apprehensions. On 4 February, the Japanese General Council of Trade Unions of Japan held its 78th interiom conference, the operating plan of which pointed out that the November 1987 signing of the intermediate range ballistic missile treaty between the United States and the USSR produced a new moderation of the international situation. However, the Liberal Democratic Party's Takeshita cabinet, which was formed at that time, disregards this trend and is further strengthening its military expansion line. In the government's 1988 budget, defense expenditures amount to 1.013 percent of gross national power, exceeding the 1 percent limit. At the same time, the Japanese-American military alliance has been strengthened, Japan taking responsibility for labor subsidies to American forces stationed in Japan. These trends have aroused concern on the part of China and other close neighbors of Japan. Consequently, the General Council of Trade Unions of Japan opposes the policy pursued by the Liberal Democratic government for strengthening military capabilities.

A public opinion survey conducted by the Prime Minister's Office in Japan on the issue of Japan's defense expenditures showed 58 percent of people as believing that "the present percentage is very good," and 19.2 percent feeling that "present defense expenditures should be reduced." This is to say that 77 percent oppose or do not agree with an increase in defense expenditures. In this connection, Japan's ASAHI SHIMBUN said in a 28 June 1988 editorial that this situation shows that quite a few people believe that breaking the 1 percent of gross national product limit on defense expenditures is too forceful a way of doing things that makes them feel uneasy about the future. Even among supporters of the Liberal Democratic Party, 72.9 percent held a negative attitude about continuing to increase defense expenditures. The government must think deeply about what this means. The editorial continue by saying that the government should give an honest reaction to the results of this public opinion poll. At a time when military expenditures are steadily decreasing throughout the world, why does Japan want to continue to increase its

military expenditures? At a time when east-west relations are improving, how is it possible to persist in increasing Japan's defense capabilities completely on the basis of the Soviet threat?

The United States Comprehensive Long-Range Strategic Report published in early 1988 estimates that over the next 20 years, the world will move toward multiple polarity, and "a crucial question affecting the strategic balance is whether Japan will take the road of becoming a military power." During February, former Secretary of State Henry Kissinger said tremendous changes will occurs in the pattern of international relations during the end of this century, with Japan becoming an important military power.

A February 1988 ASAHI SHIMBUN report said that in a speech to the first meeting of the National Defense College in Washington, Assistant Secretary of Defense Richard L. Armitage said that he believed that too many requests that Japan increase its defense expenditures to make it able to exceed the presently planned capability to protect sea lanes for 1,000 nautical miles could destroy stability in East Asia. He also criticized some people in the United States Congress for suggesting that Japan should increase its defense expenditures to 3 percent of gross national product. In this connection, newspapers reported that this same assistant secretary's emphasis on Japan's defense capabilities reaching a substantial level when he had formerly exerted pressure on Japan to increase its defense expenditures suggested that the United States was itself wary lest Japan become a military power. A Japanese JIJ Press dispatch dated Washington, 23 July 1988 said that not long ago the U.S. Department of Defense cast Japan in the role of "imaginary enemy" in a secretly conducted simulated exercise. The news report added that this was the first time since World War II that Japan had been used as the target in an exercise. Moreover, the United States studied various imaginary circumstances such as what future road Japan might take, what actions it might take in the future, etc.

A 4 July 1988 Agence France Presse dispatch reported that Asian and Oceanian countries are universally apprehensive about the increased Japanese defense role. An editorial in the 11 May 1988 of the South Korean TONG A ILBO said that we feel once again that a "powerful Japan" will sooner or later become a problem that causes headaches for our country, and vigilance is required. Forty years after defeat in World War II, Japan has surpassed the limits of a regional country and a regional power to become an international power and an economic power. Japan's economic capabilities not only permit it to become an economic power, but naturally also enable it to become a political power and a military power. Superficially, Japan has not greatly increased its army and weapons, but its guaranteed reliance on technologically sophisticated nuclear combat forces and military technology will enable it to effectively and ingeniously obtain the results of a military power.

It has also been reported that Indonesian Minister of National Defense and Security, General L. B. Murdani, told the visiting director-general of the Japanese Self Defense Agency in Djakarta that he could understand Japan's explanation, but for Japan's defense expenditures to amount to \$29 billion was "really too high." Minister Murdani also believes that some countries in Southeast Asia are worried lest Japan become a military power.

In short, Japan's defense policy and defense capabilities have undergone marked change. This is an objective fact, and this objective fact has aroused much controversy and reaction within Japan and internationally. This is by no means a "groundless fear," but a matter extremely deserving of deep thought.

### EAST EUROPE

**Hungarians Discuss Need for Multiparty System**  
40050285 Shanghai SHIJIE JINGJI DAOBAO in  
Chinese 6 Feb 89 p 5

[Article by Sun Tianping 1327 3944 1627: "More Elements of Pluralism—Hungary Shows New Interest in the Multiparty System—Grosz Opines: 'Having one party or a plurality of parties is not at all a question of principle, but a question of actual working method. Issue of principle is only the excellent progress of socialism, and if it is necessary for this purpose to have several parties, then let there be several parties.'"]

[Text] Hungary is conducting economic structural reforms since 1968, i.e. for a period of 20 years already. The most important achievement of the reform is that it began to discard the model of command-type unified distribution, representative of Stalin, and established the "new economic system," which integrates plan and market factors. At that time, Hungary also initiated consideration of a "new political system," and prepared to carry out a reform of the political system. However, due to historical factors, mainly the Soviet Union's dispatch of troops into Czechoslovakia, the political reform died at the start together with the "Prague spring," which had embodied political and economic structural reforms. The reform of the Hungarian political system was postponed indefinitely.

Since the start of the 1980's, Hungary is increasingly plagued by economic difficulties, and its people are again seriously and earnestly pondering Hungary's political structure, and they are in particular newly exploring the function of the party. Berecz, member of the Politburo of the Hungarian Socialist Workers' Party and secretary of the Central Committee, expressed the opinion in an article which he published in the PEOPLE'S FREEDOM, a newspaper, a short time ago, that in Hungary, after 1968, "the political structure has not undergone any major changes, and that there had been no renewal within the party." He even went so far as to say that the cause for confusion in public opinion is "that for many

years we lopsidedly emphasized the leadership function of the party." When interviewed by the Soviet magazine NOVY MIR, the Hungarian minister of justice indicated that it is necessary to restudy the function of the party. People with breadth of vision in Hungary believe that the serious delay in the reform of the political structure has had an adverse effect on the reform of the economic structure, leading to a standstill in the economic reform, and even forcing it to retreat in big strides.

Reform of the economic structure will inevitably have to deal with the question of readjustments and shifts in the structure of interests. All the various social interests will have to voice their aspirations and make known their demands, in particular their ideas on the reform of the political and economic structure, through the organizations that represent their interests. On 27 August last year, Hungary put forward a draft law on assembly and association, permitting the formation of social organizations. Favored by this circumstance, all kinds of social organizations and societies mushroomed everywhere in Hungary. Some of these organizations openly declared that they "will not rule out the possibility of developing into political parties."

The rapidly increasing plurality in Hungarian society compels the Hungarian party to give consideration to a multiparty system. The first secretary of the Hungarian party, Grosz, quite frankly pointed out last year: "I propose and support our development toward a multiparty system," which is really an astonishing statement from a socialist country that has for such a long time maintained and protected a one-party system. As to the question whether a multiparty system will erode socialist principles, he said: "Having one party or a plurality of parties is not a question of principle, but a question of actual working method. Issue of principle is only the excellent progress of socialism, and if it is necessary for this purpose to have a plurality of parties, then let there be several parties." He pointed out that plurality of parties is not a panacea, but he also expressed the belief that "under the present conditions in Hungary, it may be easier to solve certain social problems in a multiparty system than is possible in a one-party system." But what has to have our attention is that Grosz seemed to have backed down a bit in his speech, when he said: "We have to view the future under the one-party system. As far as the legal system is concerned, we cannot deny that Hungary may institute a multiparty system."

The fact that the leader of the Hungarian party openly acknowledges and expresses himself in favor of a multiparty system, is not only without precedent in the history of socialist countries, but also highly abnormal. However, if the socialist political system is to operate democratically and effectively on the basis of a multiparty system, it will obviously require a period of adjustments. It is precisely as Berecz expressed it: "A multiparty system is acceptable, but will require a transitional period." The road to political pluralism will, of course, not be smooth. Massive revival of the dregs of the small



peasants party, provocations by hostile forces, the inordinate exaggeration of the multiparty system, all these will be factors that will impede the multiparty system in Hungary, factors that must not be overlooked. However, if the multiparty system will truly be a democratic and efficient socialist political system, it will break all fetters and emerge as the time requires, in spite of all setbacks and obstacles that may be met on the way. As to the prospects for a multiparty system in Hungary, an optimistic assessment is that if everything progresses smoothly, the multiparty system will be approved by the

next national assembly. This will make Hungary the first socialist country with a multiparty system. If that happens, the multiparty system will no more be merely a topic of discussion, but will have become a living reality. The political restructuring of socialist countries will then perhaps be able to obtain some workable ideas from the Hungarian experiment. A pessimistic view would be that it is still a long way, if Hungary really wants to go the road toward a multiparty system, and one cannot really be optimistic about the prospects for its multiparty system.

### Memoir of Qian Jiaju

40050282 Hong Kong MINGPAO YUEKAN [MING PAO MONTHLY] in Chinese  
No 277, Jan; No 278, Feb 89

[Article by 0578 1367 7467: "Eighty Years of National Affairs That Touched on My Life: A Witness of Four Dynastic Changes"]

[No 277, Jan 89 pp 29-35]

[Text] Note: Mr Qian Jiaju, who was born 80 years ago, is a famous Chinese economist. He has witnessed four changes of dynasty, been closely connected with the CPC—he joined the party when he was in his teens, was later given important positions by the CPC, and then was subjected to repeated cold-shouldered attacks—and is now a standing member of the CPPCC.

Beginning with this issue, Mr Qian will write his memoir for this publication, record in detail what he has experienced and thought over the past several decades; and make public his experiences with the CPC, so that everyone can gain an understanding of contemporary Chinese history from the angle of the bitter experience of this intellectual who was concerned with national affairs.

I was born on the 28th day of the 8th lunar month of the lunar calendar in the year *jiyou* (1909), and this year marks the beginning of my eight decade. These eighty years were times of great turmoil in China; in terms of dynasties alone, there were four changes—the Manchu Qing dynasty, the Beiyang militarists' government, the Nationalist government, and the Communist government. During these eight decades, China underwent earth-shaking changes, from a feudal dynasty to a "proletarian dictatorship" led by the CPC.

The Qing dynasty collapsed within 3 years after my birth, so I have absolutely no impression of its rule—but I did have a pigtail, I think. My mother told me that even at death my grandfather refused to cut his queue. A first-degree winner of the Qing dynasty, he was bull-headed and often used to tell the family that he would rather eat 3 *liang* of opium and die in the Confucian temple than cut off his pigtail. It probably never occurred to the old man that Confucius did not keep his hair in a queue. However, my grandfather passed away when I was 4—that would be the 2d year of the Republic. So there is no doubt that I had a pigtail before the Republic was founded. It is just that I do not remember it.

At the age of 5, I entered primary school. The school was a modern one of the Republican era, and what I learned was "man," "hand," "foot," "knife," "ruler," "mountain," "water," "field," "dog," "ox," and "sheep," not the "Sanzi jing" [Three Character Classic] and "To learn and at due times repeat what one has learned" of old.

During my study at primary school, middle school and then at college in Beijing, China was ruled by the Beiyang militarists. During all that time, the warlords engaged in tangled warfare, the people were destitute, and Beijing government orders never went beyond the city gates.

### National Calamity Awakened My Innocent Mind

I embraced the new tide of thinking relatively early [but] was not qualified to participate in the "May Fourth Movement," because I was still in primary school and had not yet entered middle school in the 8th year of the Republic (1919). I passed the entrance examination and entered Jinhua No 7 Middle School in 1921. In 1925, the "May 30th massacre" occurred, in which British police shot Shanghai citizens, and this event was a key turning point in my thinking. Prior to this, I had been a "good pupil" buried in my books and, in an effort to learn English, used to go with some of my classmates to the Jinhua Church to attend services. At that time, in addition to the Provincial No 7 Middle School and the Provincial No 7 Normal School, there was also the Chengnu Middle School for Girls, which was run by American missionaries. The principal of this school was an old maid, Miss Li. We studied English with her, and she talked us into joining Protestantism. But that was just when the "May 30th massacre" occurred. Our ardent blood boiling, we felt that imperialism had gone too far in bullying our China and that Christianity was a tool the imperialists used to commit aggression against China. So we did not go to services any more and even launched campaigns against Christianity.

By that time, the CPC had been in existence for quite a while, and its official journals, XIANGDAO [THE GUIDE] and ZHONGGUO QINGNIAN [CHINA YOUTH] were often mailed to our mountain town in eastern Zhejiang. There was also a mimeographed journal published by the students who had engaged in the work-study program in France called CHIGUANG [RED LIGHT], which we could read in the library. And Sun Yat-sen's Three Principles of the People were surreptitiously circulated among some of my schoolmates. For this was the eve of the first great revolution in China, when the Kuomintang [KMT] and the CPC engaged in their first collaboration.

### Membership in Both the KMT and the CPC

At Jinhua, I first secretly joined the KMT and subsequently joined the CPC, thus having feet in both parties. In 1926 I graduated from Jinhua No 7 Middle School and went to Beijing to take examinations to enter college. I tested into Beijing University and then joined the underground CPC organization at that school. At that time, Beijing was under the iron heel of the Fengtian militarist Zhang Zuolin, and in March 1928 a Communist Youth League [CYL] was penetrated, and I was among those arrested and incarcerated in an army prison, where I languished for more than 2 months. As luck would have it, the Northern Expedition of the

National Revolutionary Army won victory just at that time, and Zhang Zuolin fled beyond the pass into Manchuria, where he was killed by a bomb at Huanggutun. After the National Revolutionary Army occupied Beijing, Dear Old Mr Jiang Han, dean of humanities at Beijing University, secured my release from prison.

Thereafter, I left the party organization and never applied to have my membership restored. Nevertheless, I have always believed in and am an devotee of Marxism. I applied myself to a study of Marxism, closed my door and painstakingly read every Marxist work available in English translation at that time. I devoted no less than 10 years of my life to the study of "Capital" ["Das Kapital"] and translated about two-thirds of Chapter 2 of the work. I sent the manuscript to Commercial Press, which had the type all set, but the translation was never published because of the various misgivings of the company boss.

When I graduated from college, the KMT was already ruling China. After the Mukden Incident, I participated in and led the trip south by Beijing University students to demonstrate. In 1932, I went to work in the Social Survey Institute, which was run by Mr Tao Menghe and was an academic research organ funded by the China Cultural Education Foundation. Most of the articles I wrote at that time criticized the Nanjing government's financial and economic reforms and thus won much attention from all quarters of society.

#### **Running about Campaigning To Resist Japan and Save the Nation**

In 1936, I moved to Nanjing with my work unit (the Social Survey Institute had been combined with the Social Science Institute of Academia Sinica). After arriving in Nanjing, I threw myself into the anti-Japanese national salvation movement, which was then raging across the country, and established contact with the Shanghai National Salvation Association. I was a responsible member of the Nanjing association and fought together with Wang Kunlun, Sun Xiaocun, Cao Mengjun, Xu Baoju et al. At that time, the leaders of the Shanghai association, Shen Junru, Zhang Naiqi, Shi Liang, Sha Qianli et al., used to come to Nanjing regularly to consult with Feng Yuxiang, He Xiangning and other advocates of resistance war in the Nanjing government so as to promote resistance to Japan. Whenever these leaders came to Nanjing, Comrade Sun Xiaocun and I would accompany them everywhere.

In November 1936, the Nanjing government arrested seven leaders of the National Salvation Association, which event became known as the "imprisonment of the seven gentlemen." At that time, I was in Shanghai attending a meeting of the All-China Federation of National Salvation Associations. The arrest of the "seven gentlemen" led to a great deterioration in political conditions. The Nanjing government suppressed the national salvation movement, leaving me no room to operate in Nanjing, so I took refuge in Guangxi, where I

obtained a teaching position at the University of Guangxi. At that time, the authorities of Guangxi, Li Zongren, Bai Chongxi et al., were Nanjing's rivals and brought many democratic progressives, such as Chen Wangdao, Deng Chumin, and Shi Fuliang, to Guilin (then the provincial capital) to teach at Guangxi University. Guangxi used these individuals as "political capital" in its opposition to Chiang Kaishik's regime in Nanjing.

#### **Even More Communist than the Communists**

I arrived in Guilin in the spring of 1937 and was engaged as a professor of economics at Guangxi University. At that time, Chen Wangdao, Deng Chumin, and I (Shi Fuliang had already left) had the highest salaries in the university—300 yuan a month, equivalent to 3,000 yuan in Renminbi today. The Marco Polo Bridge incident occurred that year, and the Anti-Japanese Resistance War broke out across the nation, and the KMT and the CPC initiated their second collaboration so as to fight Japan together. At that time, Guangxi became the great rear area of the Southwest, and Guilin became renown throughout the country as the "city of culture," because the Guangxi authorities were fairly enlightened, permitted more freedom of speech, and so attracted many famous scholars to Guilin, including Li Siguang, Hu Yuzhi, Xia Yan, Chen Hansheng, Zhang Zhirang, Ouyang Yuqian, Fan Changjiang, Meng Qiujiang, and Bai Pengfei.

Guangxi also established the Reconstruction Research Institute, which on the surface appeared to be an academic organization but in fact represented a move by Li Zongren against Chiang Kaishik. For after the Resistance War broke out, the Guilin clique cooperated with Jiang but was greatly afraid that Jiang would gobble up Guangxi should his power penetrate the province. Thus on the eve of Li's departure for Nanjing to "help shoulder the burden of the national calamity" on 8 October 1937, the Guilin clique established this research organ, which in name was supposed to study Guangxi's political, economic, and cultural development and which sought to recruit famous scholars and members of various political parties and groups who had gone into refuge in Guilin. The research positions were honorary and carried no salaries, and the researchers were basically of three types: (1) High-ranking Guangxi political and military cadres. From Li [Zongren], Bai [Chongxi], and Huang [Xuchu] on down, all officials ranking as the chief of the Pacification Bureau or directors of all provincial departments and bureaus or above and all advisers and counselors participated; (2) famous members of cultural circles from outside Guangxi; (3) members of various political parties and groups (including a handful of Communists) who opposed Chiang Kaishik. In terms of political stand, there were progressive, reactionary (the KMT provincial party headquarters), and moderate elements, the latter of which predominated. The institute had three departments—political, economic and cultural, each of whose director was a Guangxi leader and

whose assistant director was an outsider. For example, the director of the political department was the chairman of the Guangxi provincial government, Huang Xuchu, and the assistant director was Qiu Changwei; the director of the economic department was Chen Xiong, who was chief of the Guangxi Reconstruction Department, and I was the assistant director; and the director of the cultural department was Li Peihong (later Su Xixun), who was chief of the Guangxi Education Department, and the assistant director was Bai Pengfei, later Hu Yuzhi. And Chen Shaoxian and Li Renren were in charge of the routine administrative affairs of the institute. Chen, a native of Guangxi and an old member of the Revolutionary Alliance, had consistently opposed Chiang Kaishik, been brought to Guangxi as a guest official, and forged a very close friendship with Li Zongren. Li Renren, styled Zhongyi, was a senior statesman of Guangxi, had been Bai Chongxi's primary school teacher, and enjoyed great prestige and status in Guangxi. The Reconstruction Institute was a true united front organization. Old Chen and Li were open minded and enlightened, got along very well with progressive members of cultural circles, and played an important role in making Guilin a "city of culture" during the War of Resistance.

In addition to the position at Guangxi University, I also engaged in many social activities at the time, such as serving as the assistant director of the economic department of the Reconstruction Institute, as editor-in-chief of ZHONGGUO NONGCUN YUEKAN [RURAL CHINA MONTHLY], and as editor of GUOMIN GONGLUN [CITIZEN OPINION]. I was busy all day long taking part in discussion meetings and giving reports, and to many rightwingers I was a cultural activist who was "even more communist than the Communists." The Guangxi authorities treated me as an economic adviser and with high regard. So when Comrade Xu Teli visited Guilin, Li Kenong (the Eight Route Army Office's representative in Guangxi) asked me to take Xu to visit Guangxi Chairman Huang Xuchu. And when Ye Jianying visited Guilin, I chaired a large meeting that asked him to give a report at Guangxi University. I became a very busy person in the city of culture. Thus when Comrade Zhou Enlai passed through Guilin one time, he specially invited Hu Yuzhi and me for a talk and earnestly admonished us, "Make plans to take cover for a long time. Do not flash your ability all over the place. You must preserve your strength." I was not an underground Communist, yet Zhou Enlai treated me entirely as one of his own.

When I was teaching at Guangxi University, the minister of education in the Nationalist government in Chongqing was Mr Chen Lifu. In 1939, the university was changed from a provincial to a national institution, and funding was shared 50-50 by the Guangxi and Chongqing governments. Subsequently, Chongqing threatened to hold back funds if the university did not dismiss me, which it did in the summer of 1940.

### Refugee in Hong Kong

In the winter of 1940, the KMT initiated the second anti-Communist high tide, the domestic political environment deteriorated after the New Fourth Army incident, and many progressive cultural leaders went into exile in Hong Kong, which prior to the outbreak of the war in the Pacific had become the cozy haven of pot-bellied merchants who were unwilling to be slaves of the Japanese in the occupied zone or to endure the tough struggle of the great rear area and who lived a life of luxury and dissipation in Hong Kong, whose economy boomed. In addition, Hong Kong was a colony of Great Britain, which was an old-style bourgeois democracy, and thus Hong Kong retained some of this bourgeois "democratic" tradition. So long as one did not oppose British imperialism, incite workers to strike, demonstrate, or disturb "social order," basic freedoms of speech, the press, assembly, and association were protected by law in the colony. Thus at that time many progressive democrats went to Hong Kong to carry on their activities, including Liao Chengzhi, Zou Taofen, Mao Dun, Zhang Youhuan, Fan Changjiang, Xia Yan, Hu Sheng, Qiao Guanhua, and other people.

I lived off my writing, participating in the editorial committee of DAZHONG SHENGHUO [MASS LIFE], which was headed by Zou Taofen; writing an editorial every week for TA KUNG PAO; and publishing articles in HUASHANG BAO [CHINA MERCHANT DAILY] and HSINGTAO CHIHPAO. Unexpectedly, however, the Japanese imperialists launched the "war of the Pacific," Hong Kong soon fell, and in one evening all of the newspapers and periodicals in which I was involved ceased publication, and we became refugees in an occupied area.

### Return to Guangxi as a Vagrant

After innumerable hardships, I finally managed to escape the Japanese pirates' den of monsters and to return to Guilin. But the situation on my return was vastly different from that of my arrival in the spring of 1937. The first time, I was courteously invited by the Guangxi authorities to serve as a guest official, but this time I returned as a refugee, and before I arrived the Chongqing government had ordered the Guangxi authorities not to arrange work for me in that province, claiming that the central government had other, more important need of me. Thus I became a vagrant. Indeed, Chiang Kaishik twice sent representatives to Guilin to induce the cultural leaders who had returned from Hong Kong to go to Chongqing. The first representative was Mr Liu Baimin and the second was Mr Cheng Siyuan. Liu said to me, "Mr Qian, you have criticized the government's financial policy, but the misunderstanding will be dispelled once you go to Chongqing and chat face-to-face with Premier Kong [Xiangxi]. However, I preferred to remain a vagrant in Guilin than to go to Chongqing. On another occasion, I told a Chief Cheng of the Southwest Tax Administration—who had repeatedly



invited me to assist his office because, he said, I studied finance and taxation, both of which belonged to the field of finance—"I do not want any title; I can supply opinions, but Chongqing probably will not approve if I take up a formal title." This Chief Cheng surprisingly beat his chest and said, "There is absolutely no problem with Chongqing; I will vouch for you, so long as you will agree to assume a title." This made me wary. I thought to myself, Chiang Kaishik's government would not allow the Guangxi authorities to arrange work for me, so even the big Guangxi chiefs, Li, Bai, and Huang, would not assume the responsibility. Yet a regional tax chief dared to guarantee that there would be no problem with Chongqing and to assume all responsibility himself—you can imagine what kind of connections he must have had. Only the heads of the Whampoa or C.C. Clique (the "central faction") would have such courage. Otherwise, I thought, this must be a trap to snare me. So I firmly refused. When Chief Cheng saw that I was unwilling to take up any formal title, he no longer sought me out. After Liberation, I asked Mr Shen Zui about this Chief Cheng, and sure enough the latter turned out to belong to the C.C. Clique.

I lived in Guilin for a while but had to flee again, to Zhaoping County in southeastern Guangxi, when the Japanese pirates advanced against Guilin in 1944. Soon Zhaoping was occupied, so I moved again to Huangyao, a small town in Zhaoping County located about 80 li from the county seat. Transport was poor in Huangyao—no trains, no highways, and no riverways led to the place, so the iron heel of the Japanese pirates never reached it. The place had a population of less than 10,000, beautiful scenery, and honest and simple people who greatly respected "book readers." After evacuating to Huangyao, we felt that, with all these famous cultural leaders assembled here, it was a great opportunity for the town, so we volunteered money and grain and established a middle school, for which I was selected to serve as principal.

Within a year after my arrival in Huangyao, the Japanese imperialists surrendered unconditionally. I turned my principalship over to the educational affairs director, bought a boat and traveled eastward to Wuzhou, where I paid a call on Li Renchao (Jishen), who resided nearby in the countryside. Li and I discussed the political situation after the China's victory in her war of resistance. Then I went to Hong Kong. At that time Hong Kong had just been recovered and was facing a depression, buildings were empty, and people refused to use the large notes (namely, bills with a face value of 100 yuan or more) issued by the Hong and Shanghai Banking Corp.

I had originally gone to Hong Kong with the intention of bringing democrats together to run a newspaper, an agreement I had made with Mr Chen Shaoxian and Mr Ouyang Yuqian in Huang Yao and had discussed with and received great support from the revered Mr Li in Wuzhou. But when I arrived in the colony, I learned that

the CPC Southern Bureau had a unified plan for newspaper operations there, and the times were not ripe for the members of democratic parties and groups to set up newspapers in the colony. So I came up with a new plan of attack and set up the JINGJI TONGXUN [ECONOMIC NEWSLETTER] Agency on my own. This newsletter was a weekly; was not sold openly; was intended as an internal reference for enterprises, banks, government institutions, and individuals; and carried a heavy subscription fee, which enabled the agency to be self-supporting. In this work, I received great support from Mr Zheng Tieru, then the manager of the Bank of China in Hong Kong.

#### **In Running the Newsletter, I Made the Friendship of a Much Older Man**

Mr Zheng Tieru was a famous Chinese expert of international banking; had studied in the United States during his youth; on return to China became a professor at Beijing University at the same time Hu Shi, Tao Menghe, Ma Yingchu, Ma Xulun et al. were there and established very close relationships with these gentlemen; and later changed careers, entering banking and becoming the manager of the Hong Kong branch of the Bank of China, which branch was in charge of all the branches in Southeast Asia (including Thailand, Burma, Indonesia, and Malaysia), a very important post. Old Mr Zheng had been in charge of the branch for more than 30 years, had made great contributions to the Bank of China, and enjoyed great prestige in bank and entrepreneurial circles in the colony. I met him through an introduction by Mr Chen Hansheng, and we got along very agreeably, and became good friends instantly, despite the age difference between us (he was more than 20 years older than I). He was an uncle of Zhang Hanfu (who became permanent vice minister of foreign affairs after Liberation), whom Zheng had rescued from prison when Zhang was arrested for engaging in underground activities in the colony. Frankly speaking, my JINGJI TONGXUN Agency would not have been able to continue had it not been for Dear Old Zheng's great support. After Liberation, he became a delegate to the National People's Congress [NPC], and when he came to attend congresses in Beijing each year, he was invited by Premier Zhou Enlai to dine with him alone. He told everyone that during the War of Liberation he and I jointly ran JINGJI TONGXUN, which is exactly the way it was.

Besides running the JINGJI TONGXUN Agency, I also served as the secretary-directory of the southern branch of the Chinese Democratic League. At that time the league suffered oppression in China, so the southern branch raised the banner of democracy and established organizations in London, Jakarta, Thailand, Singapore, Malaysia, and Burma, as well as in Hong Kong, and these organizations were very influential among overseas Chinese. In November 1947, the KMT ordered the league dissolved within China, so Shen Junru and Zhang Bojun secretly came from Shanghai to Hong Kong to convene



the 3d plenum of the league's Central Committee. If the southern branch had not served as a base of operations, the 3d plenum would have been very difficult, if not impossible, to hold.

#### **Insinuating Remarks from Mao Zedong**

After the battle of Huahai in 1948, the defeat of the KMT was a foregone conclusion, and democratic leaders residing in Hong Kong, such as Li Jishen, Shen Junru, Guo Moruo, Zhang Bojun, Ma Xulun, and Cai Tingkai, left group by group to go to the liberated areas. One day, Comrade Xu Dixin informed me on behalf of the [CPC] organization that it wanted me, too, to prepare to go to the North to participate in the preparatory conference for the new CPPCC. I wrapped up the JINGJI TONGXUN and secretly left Hong Kong with Chen Shaoxian, Chen Cisheng, Li Zhangda, Chen Qiuyan, and two or three others.

We took a ship flying a foreign flag to Yantai, where we disembarked and traveled first to Jinan, then to Pingshan County near Shijiazhuang, where the CPC Central Committee was headquartered. We met Mao Zedong, Zhou Enlai, Zhu De, and other leading comrades at Lijiazhuang, where Mao Zedong invited us to a banquet and talked to us cordially. The first time we met Chairman Mao, he inquired in detail about each of our past experiences. When he got to me, I told him I had taught college, and he launched into a tirade of grumbling, exclaiming, "Ho, taught college, eh? I never even got into college. All I did after graduating from middle school was work at the Beijing University library, where I got a miserable *shen peng leng* [a Cantonese expression meaning 'total'] of 8 yuan a month; Zhang Shenfu was my superior." At the time I did not notice the insinuation in Mao's words. Only after the 1957 did I realize that Mao nursed a special abhorrence of high-ranking intellectuals and thus that all of the continuous political campaigns thereafter would have as their central aim the purge of intellectuals. However, that is a subsequent tale.

#### **Witnessing an Enlightened Aspect of the Liberated Area**

After leaving Shijiazhuang, I arrived in Beijing (the name "Beijing" had not yet been restored), which had just been liberated, and was put up at the Beijing Hotel. At that time, the new CPPCC had not yet convened, as the democratic personages of various quarters were still arriving in the city. So none of us had anything else to do but stroll the streets.

Beiping was placed under the jurisdiction of the North China People's Government, whose chairman was Dong Biwu. Zhang Naiqi and I expressed willingness to do a bit of economic work for the government, and Dong engaged Shen Zhiyuan and us to serve as advisers to the head office of the People's Bank of China, whose president was Mr Nan Hanchen. Nan, an old CPC member, had served as the secretary general of the Shaanxi

provincial government during the Yang Hucheng era and as vice minister of the United Front Department in the liberated area. He was enlightened, willing to cooperate with non-party personages, and free of the narrow-mindedness and intolerance that characterized some old cadres of the liberated areas, so we got along together very harmoniously, he talked to us very frankly and sincerely about major policies and programs relating to the bank, and we discussed such matters together. I understood that Comrade Zhou Enlai had instructed Nan Hanchen frequently to ask for our advice on all financial and banking questions in liberated and KMT areas (at that time, the CPC had not yet crossed the Chang Jiang, and Southeast China still lay in KMT hands). I recall that when we were trying to set the exchange rate between the Renminbi and the gold yuan, they [the CPC] convened a conference at which they solicited our ideas, and I suggested a rate of 1:10, which is the rate they settled on, probably because it accorded with the plan they had in mind. And just after Shanghai was liberated, bank conditions were chaotic, merchandise speculation was rife, and speculation in gold, silver, and foreign exchange was especially rampant, so Comrade Chen Yun asked Zhang Naiqi and me for our suggestions, and I made specific proposals that I drew up on Chen's behalf in a draft telegram to be sent to the Shanghai authorities, which he immediately signed and dispatched. So you can see that the Chinese Communist authorities were certainly open-minded at this time.

Besides serving as an adviser to the People's Bank, I also was a professor at Qinghua and Communications universities. Comrade Wu Han, the military representative at Qinghua, had been a middle school classmate of mine, and we were intimate friends. I would never have imagined that both Comrades Nan Hanchen and Wu Han would be unjustly tortured and killed during the 10 years of calamity wreaked by the Cultural Revolution.

I participated in the Preparatory Conference for the first new National CPPCC. Before the NPC was established in 1955, the National CPPCC not only performed the duties of the NPC in its stead but also created the PRC. The National CPPCC was the mother of new China and gave birth to the PRC. But after the PRC was established, the CPPCC no longer served as the mother of the nation and instead became merely a united front consultative organ comprised of members of various democratic parties and groups, various popular organizations, and representatives of various quarters. Students of the political history of mainland China must understand this point.

#### **Drawing in National Capitalists and Financially Supporting Wu Gengmei**

One day in September 1949, before the PRC was founded, Comrade Xue Muqiao asked me to see him at the Central Finance and Economics Committee, where he told me that the central authorities planned to set up a Central Private Enterprise Bureau once new China was

established, which bureau he was to head. He asked me to serve as assistant director, saying that this was Comrade Zhou Enlai's idea and that Zhou had asked Xue to see if I would be willing to take the post. Xue also said that his position in the bureau would be merely titular because his primary work was in the Central Finance and Economics Committee (of which he was the secretary general) and that he wanted me to take charge of the bureau's work and to put its organizational framework in place.

The PRC was formally founded on 1 October 1949, and soon the slate of appointments to the Government Administration Council was announced. The council was to have three committees, political and legal, economic, and cultural. The director of the Political and Legal Committee was Dong Biwu, the director of the Finance and Economics Committee was Chen Yun, and the director of the Cultural Committee was Guo Moruo. These three committees were the equivalent of a small cabinet and were in charge of administering the three areas of the Government Administration Council's work.

I was appointed a member of the Finance and Economics Committee and assistant director of the Private Enterprise Bureau. At that time I was the only assistant director, but the next year Mr Wu Gengmei was added. Wu was the general manager and chief executive of the China Standard Pencil Company of Shanghai, a famous national capitalist in China, and a standing member of the Democratic Reconstruction Council. To get Wu to come to work in the Finance and Economics Committee, Chen Yun specially ordered the People's Bank to grant China Pencil a loan of 40,000 yuan to help the company resolve its difficulties with working capital. Clearly, the reason why the central authorities wanted to establish the Private Enterprise Bureau and wanted Wu and me to serve as assistant directors the bureau was not to eliminate but to develop private enterprise. That is because the CPPCC's "Common Program" (the "constitution" of that time) clearly stipulated that "the People's Government shall encourage the initiative and support the development of all private economic enterprise that benefits the national economy and the people's livelihood" (Article 30). Article 26 also stipulated that new China was to have five economic components (state-managed economy, cooperative economy, individual farm and handicraft economy, private capitalist economy, and state capitalist economy, and joint public-private operations) and that these components were to "share the work and cooperate and play their proper roles so as to promote the development of the entire society and economy." An important job performed by the Private Enterprise Bureau after its establishment was the drafting of the Implementing Regulations Concerning Private Enterprise (the same name as the legislation promulgated 25 June 1988). The basic thrust of these regulations was to encourage the initiative of private enterprise. And to encourage overseas Chinese to invest in China, the bureau and the Overseas Chinese Affairs

Commissions jointly established the Overseas Chinese Investment Guidance Commission, of which I was the director and Mr Zhuang Xiquan of the Overseas Chinese Affairs Commission served as deputy director. These events clearly demonstrate that in the early period following Liberation the CPC clearly understood the nature of China's economy at that time and was very sensible. As Mao Zedong said in "On Coalition Government" in 1945, China did not have too much capitalism but rather too much imperialism and feudalism. so when new China is established she should permit private capitalism to develop and not destroy it.

#### Policy Reversals and the Toppling of Wu Gengmei

However, after 1950 the CPC adopted a series of ultraleftist lines, took class struggle as the key link, believed that the principal contradiction in new China following Liberation was the struggle between socialism and capitalism and the question of whether the proletariat would defeat the bourgeoisie or vice versa, and thus unleashed a succession of political campaigns, such as the "three-anti," the "five-anti," the "anti-rightist," and the "anti-right deviationist" campaigns, finally culminating in the unprecedented Cultural Revolution. The CPC treated all private enterprise and the individual economy (such as barbers, porters and itinerant knife sharpeners) as capitalist and targeted them for destruction. The party even viewed the practice of peasant women of taking a few chicken eggs to market to sell as a spontaneous bourgeois force and criticized such practice. The party's goal was to eradicate all commodity economy and to establish a Maoist "communist paradise."

One of the goals of the political campaigns of new China was to thoroughly destroy the bourgeoisie; another was to smash intellectuals, especially high-ranking ones. I bore the brunt of both these assaults, especially the former, for the Private Enterprise Bureau I directed was supposed to support the development of private enterprise. This had originally been the policy of the CPC Central Committee, but now there was a 180 degree shift: In 1953 the party advocated a program of "utilization, restriction, and transformation"; later came complete eradication. During the three- and five-anti campaigns, Mr Wu Gengmei, because he was a national capitalist, was a target of the five-anti campaign, and because he was also a leader of the Private Enterprise Bureau, was also a target of the three-anti campaign. Thus during a mass struggle campaign, he was driven from the bureau and was not even allowed to come back to take personal documents from his desk—which amounted to "being swept out the door." That a high-ranking administrative official (the assistant directors of the bureau were appointed by Zhou Enlai, had formal letters of appointment, and were equivalent to the "selected appointment rank" of old China) could have no right to personal security or to personal documents is unimaginable in democratic countries.

### The Protection Afforded by Zhou Enlai Enabled Qian Jiaju To Get through the Crisis

When the three-anti storm hit the Private Enterprise Bureau, I was participating in the land reform campaign in Guangxi and was summoned back to Beijing by a telegram from the Finance and Economics Committee. Upon my return, I found the bureau auditorium plastered with big character posters accusing me of being "an agent of the bourgeoisie," of always "seeking to advance the interests of capitalists," and of causing "several million yuan in losses to the state." I was suspected of having taken bribes from capitalists and possibly of "corruption." I had no choice but to make a quick "self-examination." At that time, my friends from the National Salvation Association were very worried for me. Shen Junru, Shi Liang, Xing Zhichao, Min Ganghou et al. asked me if I had any business dealings with capitalists, and I told them I certainly had. Lu Zuofu (founder of Sichuan Minsheng Company who had committed suicide during the five-anti campaign and for whom the Chinese Communists recently held a big celebration commemorating the 100th anniversary of his birth) invited me to a simple meal at a Sichuan restaurant in Dongan Market. Li Yuanhong's son, the former board chairman of Zhongxing Coal Mine Company, once sent me a *jin* of Longjing tea. And the capitalist of the Dongbei Porcelain Plant sent me a box of cigarettes and an old plank bed. But that was all. It would seem that such things would not be enough to make one "guilty of corruption." My work at the Private Enterprise Bureau was carried out at the instruction of Chen Yun, chairman of the Finance and Economics Committee, and of Xue Muqiao, secretary general of the committee. But I had completed a thorough self-examination in which I admitted that my consciousness of the class line was weak and that I had unconsciously allowed myself to be an "agent of the bourgeoisie in state organs." Subsequently, Zhou Enlai, Chen Yun, and Li Wei-han (then director of the United Front Department) each issued directives to Xue Muqiao, telling him, "We have failed to explain many things clearly, so Qian Jiaju cannot be held responsible. As for self-examination, once is enough; do not make him do a second." Thus I finally managed to "receive protection and survive crisis." After the self-examination, I was never given any punishment and was allowed to remain as assistant bureau director.

The CPC's attitude toward me and Wu Gengmei was totally different, because Wu, after all, was "bourgeois," whereas I was a progressive democrat who had been close to the party. However, when the slate of delegates to the first NPC was approved in 1954, all the leaders of democratic parties and groups were approved for election. (Delegates were by no means elected but were named by the CPC Central Committee, which sent the slates to the provinces, which reported back. Thus some delegates were not from the province they were named to represent, had never worked there, and had had no tie whatsoever thereto. But because of central assignment they were to be that province's delegate. This was the

CPC's "democratic centralism." During the Cultural Revolution, some delegates did not even know that they were delegates until they were informed after they boarded trains or planes that they were on their way to Beijing to attend the congress.) I alone was left out. In other words, I had committed "mistakes of ideological line" in my work, and this was my "punishment."

Although I was not removed from my position, I became a true "supernumerary" and never again participated in bureau affairs. The bureau was subsequently renamed the Central Industrial and Commercial Administration, and to strengthen party control the central authorities appointed Xu Dixin director of the administration and added a number of party member assistant directors. As a democratic personage who was nominally the first assistant director, I was put in charge of trademark work, which the administration viewed as most insignificant. Trademark work protects the sole rights of entrepreneurs to their commodities and is very important in market societies, but in a "socialist" economy like China's all enterprises are state-run, and their commodities enterprises to "the whole family," so what difference does it make if trademarks are misused! Thus no importance was attached to trademark rights, and my job was to run the Trademark Office.

### Assessment of the "Three Great Socialist Transformations"

Transformation of capitalist industry and commerce was another important task of the Central Industry and Commercial Administration and one of the "three great socialist transformations," which involved socialist transformation of agriculture, handicrafts, and capitalist industry and commerce. These three transformations were entered in the annals of new China as a historic victory of the CPC. Even after the smashing of the "gang of four," the CPC in its "Resolution on Some Historical Problems Relating to the Party Since the Founding of the PRC," still insisted that "History proves that the general line proposed by the party for the period of transition was completely correct."

The "general line for the period transition" principally involved "within a considerable period of time, gradually achieving state-led socialist industrialization and state-led socialist transformation of agriculture, handicrafts, and capitalist industry and commerce." Socialist industrialization means modernization, which we have yet to complete, and now that the theory of the preliminary stage socialism has been proposed, it seems that it will take another 70-80 years, that is, until the middle of the 21st century, to complete. This certainly is a "considerable period of time." Yet the transformation of agriculture, handicrafts, and capitalist industry and commerce was thoroughly completed in less than 4 years, an "especially short time." How should we evaluate these three great transformations? I think we should reassess them in accordance with the theory of the preliminary stage of socialism.



The socialist transformation of agriculture involved the communization of the entire countryside and viewed people's communes as the bridge to "communist paradise." Now the people's communes have all been abolished, and the household contract responsibility system has been implemented in the countryside, which developments have given peasants great incentive for production. It would thus seem that the assertion that "communization" was a "great victory" does not hold water! The socialist transformation of the handicrafts industry, which involved nationalization of all collective and individual handicraft operations, caused many of China's traditionally famous handicrafts to vanish forever from the marketplace. Thus it would appear that this effort was not a success either.

I was especially closely involved in the transformation of capitalist industry and commerce, because the unit I worked for, the Central Industry and Commerce Administration, was in charge of and carried this work out from start to finish. And it was Director Xu Dixin who was in charge of the whole operation. I bore the title of assistant director, number one assistant director, at that, but "though he occupied the position, he did not engage in policy."

People still believe that the socialist transformation of capitalist industry and commerce was China's greatest success, and Eastern European countries praise our performance here. The formula employed in the process was private enterprise—joint public-private operations—state ownership. The method employed to effect the transformation of industry was first to initiate procurement orders on an irregular schedule, then to introduce processing orders providing for unified management and sales, then to implement joint public-private operations, and finally to effect nationalization. In commerce, to commission the purchasing agent to carrying out the joint public-private management and transform this process to effect a nationalized enterprise. But in either industry or commerce, capitalists' assets were appraised and transferred to state ownership, and capitalists were paid a fixed rate of five percent a year in interest for the value of the assets they turned over to the state, which was called the "redemption policy." In other words, whereas the Soviet Union's practice had been to confiscate all capitalist property after the revolution, we did not copy that example, because we believed that there were two types of bourgeoisie in China: The first was the bureaucratic bourgeoisie, which was represented by the four great families—the Jiangs, the Songs, the Kongs, and the Chens; the assets of this bourgeoisie were completely confiscated after Liberation. The second type was the national bourgeoisie. This type had a dual nature: On the one hand, it was counterrevolutionary in that it exploited workers, but it was also progressive in that it resisted imperialism. So we did not use confiscation against this bourgeoisie and instead employed "redemption." For the capitalists, this was fair as Heaven is high and Earth, thick and bounteous. Some of them "wept out of gratitude" or "celebrated with gongs

and drums"! The work of this transformation was originally scheduled to be completed in 15 years but ultimately was finished off in 4. When we nationalized all capitalist assets, we also pulled out the gongs and drums "in celebration of the great victory of socialist transformation." Thereafter, China's economy began completely socialist.

#### **There Was No Room for Interference by Non-Party Cadres**

There was a common saying at that time: "Private enterprise is not as good as joint public-private enterprise, which is not as good as state ownership." This was said because under private enterprise there is capitalist exploitation, under joint public-private enterprise there is only partial exploitation, and under state ownership exploitation is eliminated and thus workers have absolutely no incentive under private enterprise and a little incentive under joint public-private enterprise, whereas under state ownership, in which exploitation is completely abolished, workers' incentive is incomparably improved, which is called the "superiority of the socialist system." At that time, this theory was treated as an ironclad principle of Marxism, and no one dared to criticize it in the least or to doubt it, for doubt meant one was a "rightist." Since practice is the sole criterion of truth, practice over the last 30-odd years has proved that the truth is precisely the opposite of the above theory.

What makes me ashamed is that my work unit, the Central Industrial and Commercial Administration, was in charge of the transformation of capitalist industry and commerce from start to finish. The primary responsible person was Comrade Xu Dixin. While I bore the title of assistant director, in reality I had nothing to do! And there was no room for us non-party cadres to interfere in the party's general principles and policies.

At that time, the party unit in charge of policy on the bourgeoisie was the Central United Front Department, and the actual implementer of the policy was the Central Industrial and Commercial Administration. Li Weiham was the director of the department and of the Eighth Office of the State Department, which supervised transformation of capitalism, and Xu Dixin was assistant director of the department and of the office. Thus Comrade Xu was the main implementer of this work. He not only had the right to speak out on policy, he also was responsible for carrying the work out, and he attended Politburo discussions of transformation policy. Of course, the general principles on the transformation were decided by the CPC Central Committee and Chairman Mao, and both the United Front Department and the Eighth Office merely followed the will of the Central Committee and of Chairman Mao. Nevertheless, to the end Xu Dixin has always believed that the "transformation of capitalist industry and commerce was a great historic victory for the party" (See "Xu Dixin xuanji"

[Selected Works of Xu Dixin], pp 124-127), though he did admit that the work suffered a number of shortcomings, namely, "we raced ahead too quickly, and the work was a tad crude."

But as we look back on the transformation of capitalism today, was it really correct? Or was it the product of a "leftist" line? Practice long ago proved that in implementing socialism one cannot erect a monolithic system of ownership. Instead, we should have multiple systems of ownership, especially private enterprise, which is an indispensable supplement to state-owned economy. Have we not repromulgated the "Temporary Regulations Governing Private Enterprise," and are we not encouraging and guiding the healthy development of private enterprise? Would it not have been much more conducive to the development of social productive forces if we had not totally abolished capitalist industry and commerce during the 1950s and instead allowed this industry to continue to operate under the leadership of state enterprises? So at the 1986 celebration of Comrade Xu Dixin's 80th birthday and of his 50th year of involvement in academic activity, when my former comrades at the Industrial and Commercial Administration asked me to read a text they had prepared praising the great contribution Dear Old Xu had made in the transformation of capitalism, I spoke but did not follow the script.

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#### [Text] The Anti-Rightist Campaign

China's anti-rightist campaign of 1957 was a great catastrophe for the Chinese people, and its consequences were no less serious than those of the Cultural Revolution. The campaign basically was designed to purge Chinese intellectuals, the vast majority of which were categorized as "rightists," not because they "opposed the party" or "opposed socialism" or made some slip of tongue but rather because they spoke the truth, spoke their minds, and dared to criticize the shortcomings and mistakes of CPC members. Most of rightists were from the Chinese Democratic League. In "The WEN HUI BAO's Bourgeois Orientation Should Be Criticized," Mao Zedong charged, "The Democratic League has played a particularly vicious role in the course of the contention among the hundred schools of thought and the rectification movement. It operates in an organized way, complete with a plan, program, and line which alienate it from the people and which are directly against the CPC and socialism. Then there is the Peasants' and Workers' Party, which has played exactly the same role. These two parties have made themselves particularly conspicuous in these days of violent storm, which was raised by the Zhang-Luo alliance." In "Qishi nian de jingli" [Experiences of 70 Years], which was published in 1986, I pointed out that this was a "bizarre injustice." Although the CPC Central Committee has never accepted my conclusion, the injustice was in fact redressed at the commemorations held in honor of the birthdays of Zhang Bojun and Luo Longji, at which many comrades

delivered addresses. I deeply believe that before this century is out the imperially decreed injustice relating to the charge of the "Zhang-Luo alliance" will formally and thoroughly be redressed. This is inevitable, and there can be no doubt about it.

Why were "rightists" so numerous in the Democratic League? That is because the league was a democratic party comprised mainly of high-ranking intellectuals. China had a total of eight democratic parties and groups, of which the KMT Revolutionary Committee, the league, and the Democratic Reconstruction Council were the most prominent. The KMT Revolutionary Committee was comprised largely of progressive members of the former KMT, such as Li Jishen, He Xiangning, Zhang Zhizhong, Cheng Qian, and Cai Tingkai, all of whom had been members of the KMT, some splitting from the party and others leading revolts against it. Members of the committee naturally were wary about the CPC and did not dare to raise criticisms freely. The Democratic Reconstruction Council represented the national bourgeoisie, whose members were still frightened and full of worry from the five-anti campaign (which was directed against bribery, tax evasion, fraud, theft of government property, and theft of state secrets). Only the league had long cooperated with, stood together with, and shared the joys and sorrows of the CPC (in the struggle against Chiang Kaishik's KMT). When the CPC came to power on the mainland, these intellectuals had no millstones around their necks and thus without any misgiving raised many suggestions and pointed out some of shortcomings of CPC members. They could never have imagined that this party rectification was a trap that Mao Zedong set to "lure the serpents out of their holes" so as to wipe them out en masse.

#### Mao Zedong Springs the Trap

Mao Zedong had always borne a grudge against intellectuals, especially high-ranking ones. They always like to voice their opinions on everything. Lu Xun put it well: "Knowledge and power conflict. Power cannot permit free thinking, for that would end up dissipating power. There is a clear example of this in the animal realm. Monkey society is very dictatorial. When the monkey king says 'go,' the monkeys all go. In primitive times, the orders of the [human] chief could not be opposed, without a doubt...." This is what Second Brother Confucius meant when he said, "The people may be made to follow it, but they may not be made to understand it." Mao Zedong was keenly aware of this stratagem. He was well versed in the "Zizhi tongjian" [Comprehensive Mirror for Aid in Governance] and greatly admired Qin Shihuang, for whose reign the "Zizhi tongjian" records: "The scholars study the old, do not serve the new, and use their learning to oppose the current rule and to confuse the common people. They conspire to slander the laws and judge each new decree according to their own school of thought, opposing it secretly in their hearts at court and criticizing it openly in the alleyways. They brag to the sovereign to win fame, advance strange



arguments to gain distinction, and incite the mob to spread slanderous rumors. If this is not prohibited, the sovereign's prestige will suffer and factions will arise among his subjects.... The scholars Hou and Lu took counsel together, in which they ridiculed Shihuang, and decided to take flight. When Shihuang heard this, he flew into a rage, exclaiming, 'As handsomely as I treated Lu and the other scholars, they are slandering me. I have ordered inquiries made about the scholars in Xianyang, and I find that some of them are spreading vicious rumors to confuse the common people.' Thereupon, he ordered the chief counselor to interrogate the scholars, who incriminated each other. Over 460 were found guilty of violating the law and were buried alive in Xianyang. The execution was reported to the entire empire so as to serve as warning." (See "Zizhi tongjian," "Qinji er" [The Biography of Qin, Part II]) However, Mao Zedong was much greater than Qin Shihuang: Qin Shihuang merely buried alive 460 intellectuals, but Mao Zedong had more than 500,000 condemned as "rightists" and prevented these individuals from ever being rehabilitated. Thus in the poem "Snow," Mao said, "Pity Qin Shihuang and Han Wudi, not brilliant enough in letters; the heroes return their gaze to this morning's dawn."

#### **Mao Exploited the Struggle between Zhang and Luo**

Who was Zhang Bojun? He was a cadre under Deng Yanda and a leader of the Peasant's and Worker's Party. Prior to Liberation, he had consistently opposed the KMT's dictatorial rule, faithfully cooperated with the CPC, and stood up against the United States and Chiang Kaishik, so the KMT ridiculed him as an "itinerate politician." After Liberation, he rose in a single leap to become a councillor of the Central People's Government, a member of the Government Administrative Council, minister of communications, and vice chairman of the National CPPCC and so was very proud of himself. Was he not unlike "Lu and the other scholars who were handsomely treated" and yet who had the impudence to raise criticism and attempt to establish a "political planning institute"? Was he not an ingrate who deserved to die 10,000 deaths?!

And who was Luo Longji? After graduating from Qinghua University, he went to the United States for advanced training, receiving a doctorate in political science. Upon return to China, he became dissatisfied with the KMT's one-party dictatorship and first joined Hu Shi's Crescent Moon Society, later participated in Zhang Junmai's National Socialist Party, and during the Resistance War was appointed national adviser by the Nationalist government. During the period of the old CPPCC, he allied with the CPC to fight with the KMT intransigent faction. When victory was achieved in the War of Resistance, the KMT offered to appoint him to an ambassadorship if he would stop cooperating with the CPC, but he was never moved. After the Democratic League was forcefully disbanded by the KMT, he and Zhang Lan were put under house arrest at Hongqiao

Sanatorium, and on the eve of Liberation he was almost killed but fortunately was spirited away. After Shanghai was liberated, he went to Beijing, where he was appointed member of the Government Administrative Council (equivalent to a cabinet member), but was greatly disgruntled when he did not receive a ministerial post. It was only until 1955 was Luo appointed the Minister of Forestry and Agriculture. Although Luo was severely influenced by bourgeois democracy, accusing him of "opposition to the party and to socialism" was a great injustice.

Zhang Bojun and Luo Longji both were vice chairmen of the Democratic League but were as incompatible as water and fire. Zhang, who considered himself a leftist within the league, formed an alliance with Shi Liang and other members of the National Salvation Association to fight against the right wing led by Luo (and including Liu Wang Liming, Ye Duiyi et al.). Zhang and Luo traded vicious personal attacks on each other at league meetings and organized groups outside the meetings to intrigue against each other to seize leadership of the league. Zhang's group clearly held the advantage, and Zhang personally told me something to the following effect: "During the KMT period, the league secretary generalship naturally was held by Zuo Shunsheng (of the nationalist faction and pro-KMT), but now that the CPC rules the realm, I should be secretary general!" (Zhang referred to himself as pro-Communist.)

During party rectification, Luo Longji was visiting Southeast Asia as a member of a friendship delegation and was not in Beijing. The CPC United Front Department was more aware than anyone of the conflict between Zhang and Luo, so it certainly was not the case that the department did not know that Luo was not in Beijing during party rectification. Yet suddenly there arose the charge of "Zhang-Luo alliance," which claimed that Zhang and Luo were conspiring to "oppose the CPC and socialism"—the biggest joke in the world. But this charge was imperially sanctioned by the great leader, Mao Zedong. The goal was to smash the Democratic League and the intellectuals. In whatever he did, Mao Zedong always focused on his objective and never worried about the means he used to obtain that objective. Thus the charge of the "Zhang-Luo alliance" was iron-clad; no one dared challenge it. Not only did the league sport a "Zhang-Luo" counterrevolutionary clique, it "operated in an organized way, complete with a plan, program, and line," so the provincial and municipal branches of the league became the "brigands' inns" of the alliance. And so the major leaders of the league's branches were condemned as lackeys of Zhang and Luo. Mao Zedong really spared no effort in this campaign.

#### **The Rightist Who Escaped the Net**

In the anti-rightist struggle, I was a rightist who escaped the net. There were both objective and subjective reasons for this. Objectively, I was a member of the National Salvation Association, which under the the

leadership of Shen Junru, Shi Liang, Hu Yuzhi et al., closely followed the CPC, was generally recognized as a "tail" of the CPC, and represented the "left" of the Democratic League. Subjectively, the Central United Front Department convened a discussion meeting of industrial and commercial circles, which included prominent figures (including Huang Yanpei, Zhang Naiqi, Rong Yiren); was chaired by Li Weiha, director of the Central United Front Department; and continued for more than a month. On the second day of the meeting, Li asked me to speak, and I presented my views on some of the problems affecting industry and commerce at that time. Some members of industrial-commercial circles have indicated, I said, that there is a wall separating the worker class and the bourgeoisie that should be removed. I said, if there is a "wall," it was created by generation after generation of exploitation of workers by capitalists and thus the latter should take the initiative in tearing the wall down. As to the question of "fixed interest," that was a redemption rendered by the working class to the bourgeoisie and did not represent a debt owed by the state to capitalists. With respect to the question of study, some people claimed that the bourgeoisie should learn from workers and that workers should learn from the bourgeoisie. I claimed that these two approaches of study were essentially different and that workers' study involved ideological transformation while bourgeois study required fundamental transformation in stand. What I said then seems very one-sided today but in those days was recognized as orthodox Marxism. My speech evoked counterattack from prominent bourgeoisie, and as the discussion concluded Li Weiha expressed his view, which was that I was correct and that those who opposed me "ought to be bludgeoned to death." Thus to industrial and commercial circles I became a spokesman for the "left," and the CPC regarded me as a firm "leftist." Subsequently they [the party] later discovered that I had said many "rightist" things, and the party cell of the Chinese Academy of Sciences, especially, wanted to condemn me as a "rightist" (I was then a member of the academy's Scientific Council), sought the agreement of my work unit (condemnation of a person as a rightist had to be done by the person's own unit; other units could not interfere), which resolutely refused, believing that I had said both rightist and leftist things, could only be considered a "middle roader," and did not deserve "rightist" status. That is why I fortunately escaped being labeled a "rightist."

Why did the Chinese Academy of Sciences insist on labeling me a "rightist"? That was because I was a member of the academy's Scientific Council (prior to the Cultural Revolution, the social sciences belonged to the Chinese Academy of Sciences, and when council members were elected in 1955, I was named member of the council of the Social Sciences Department, which also included Chen Boda, Guo Moruo, Xue Muqiao, Xu Dixin, Hu Sheng, and many others), and in a speech before the council of the Academy of Sciences, I said, "Capitalist countries also have social sciences, which is a fact we cannot totally deny. Some of these sciences may

be of use to us, such as sociology, eugenics, demographic statistics, and comparative constitutions. We cannot reject everything that the Soviet Union lacks." During the early 1950s, we "took Russia as the teacher" in everything we did, believing that only the Soviets had social sciences and that capitalists had no social sciences to speak of. Such things as "sociology" and "eugenics" were counterrevolutionary and should completely be abolished. I delivered the speech before the "anti-rightist" campaign and thus did not arouse much attention, except from Mr Tao Menghe, who greatly admired the speech. After the anti-rightist campaign was launched, they reviewed my speech and found it to be a "typically rightist speech" whose goal was the "restoration" of capitalist sociology. Thus the party fraction of the academy demanded that I be condemned a "rightist," but I was luckily saved when the party unit of the Industrial and Commercial Administration refused to approve the demand.

#### **Despite Serious Errors, I Managed To Survive the Crisis by Luckily Being Spared the "Rightist" Label**

In addition, I also committed many "serious errors," one of which involved the "Proposals for Reform of China's Scientific Administrative System," which was drafted by Zeng Zhaolun, Hua Luogeng, Zhang Dizhou, Qian Weichang et al., and proposed that efforts be made to ensure that scientists aged 65 and above be allowed to devote 65 percent of their time to research so as to protect such scientists; that research funds be permitted to be used beyond the budgetary year; and that economics is to study the objective economic laws and not to satisfy itself with "drawing pictures in order to explain" the policy decrees or leaders' speeches. Today, such proposals are common sense, but in those days they were considered "anti-socialist" and "treasonous and heretical." After Guo Moruo, president of the academy, fired the opening shot, the RENMIN RIBAO launched a massive barrage lambasting [the proposals] with full-page attacks day after day. (Dear Old Guo had no choice in the matter, as the five of us were members of the academy's Scientific Council, he was the president, so how could he not be held accountable for the appearance of these "big rightists" in the academy?) Later the CPC Central Committee probably began to figure that it would not look too good if all five of us were labeled "rightists" and thus decided to protect Hua Luogeng, Zhang Dizhou, and myself and to condemn only Zheng Zhaolun and Qian Weichang. Formal rehabilitation for this "anti-socialist scientific program" came in CPC Central Committee Document No 80 of May 1980.

In sum, during the anti-rightist struggle, I was initially viewed as a "leftist," later became a "middle roader," and finally became a "rightist who escaped the net" (1962). But by that time, the anti-rightist campaign had long been over, and it was not convenient to remedy the defect. Thus the label "rightist" never graced my chest. All things considered, I was very, very fortunate indeed.

### I "Commit Errors" Once Again in a Speech

Why did I commit yet another "error" in 1962? Because I collaborated with several economists (Chen Hansheng, Wu Bannong, Peng Dixian, Shen Zhiyuan, and Guan Mengxue) to deliver an address before the general assembly of the National CPPCC Congress, which address advocated decontrol of trade on rural agricultural markets so as to invigorate the economy. At that time, all market economy was viewed as a "restoration" of capitalism, and when peasant women took a few chicken eggs to the market to sell, that was called "spontaneous capitalist forces." And here we were impudently calling for the decontrol of rural market trade. Was that not an effort to undermine socialist economy?!

A year after I delivered the address, Yang Mingxuan, chairman of the Chinese Democratic League (he was a covert member of the CPC as well as the vice chairman of the NPC, said at a congress of the National CPPCC, "At the last congress of the conference, an individual member of a democratic party used the solemn rostrum of the National CPPCC to deliver an anti-socialist speech evincing an intention of undermining socialist economy, which is a very serious offense" (or something to that effect). Of course, I cannot reproach Dear Old Yang, because the CPC put him up to that move, and he was doing a self-criticism on behalf of the Democratic League. He did not mention me by name, but everyone knew I was the one he was talking about, for though my speech was signed by six economists, I was the one who drafted it and went up to the rostrum to deliver it. Thereafter, I became an unlabeled "rightist," and my comrades in the Democratic League "honored me as an evil spirit and kept a respectful distance from me"; no one dared get near me. At a study session, Li Weihuan, director of the CPC United Front Department mentioned me by name and ordered me to write a self-criticism, and you can be sure that I made the most "profound" self-examination. But before I had time to submit it, the unprecedented Cultural Revolution had begun, and all my friends in the United Front Department and the Democratic League who considered themselves "leftists" were also accused of being "capitalist roaders" and overthrown. To the rebels of the Cultural Revolution, these "leftists" were just the pot calling the kettle black and "six of one, half dozen of the other."

### It Turned out That I Was the Proof of Practice

One day more than 10 years after the Cultural Revolution had passed, I was sorting through my old manuscripts and suddenly discovered the self-criticism I had written more than 20 years before. I could not help laughing as I read it, for it turned out that all the "errors" I thought I had made at the time were correct from today's perspective. And if practice is the sole criterion of truth, then time is the proof of practice, so I had the entire self-criticism published in JINGBAO [MIRROR] monthly in Hong Kong (in the April and June issues)!

The anti-rightist campaign had a very serious impact on China, for the vast majority of the 550,000 people who were condemned were intellectuals, including many elite intellectuals. For speaking their views out of a genuine love for the nation or for remonstrating with the CPC, these people were labeled "rightists" or "right opportunists," were equated with "landlords, rich peasants, counterrevolutionaries, or evil elements," and suffered an inhuman existence for fully 20-plus years. (The rehabilitation of all rightists came after the cultural revolutionist "gang of four" was overthrown, in 1979, 22 years after 1957.) This "literary inquisition" was unprecedented in Chinese history and was a great catastrophe for both Chinese intellectuals and the Chinese people.

Let me give some examples of why people became labeled as rightists. One friend was condemned just for saying, "We should not use our opposition to American imperialism as a reason for opposing the study of English, for more than 70 percent of all scientific literature is in English, only a small portion is in Russian." For that he was accused of being "pro-American." And then there is the example of Long Yun, the former chairman of Yunnan province, who was then a councilor of the Central People's Government. He was accused of being "anti-Soviet" and condemned as a rightist for saying something to the following effect: "Resistance to the United States and aid to Korea is the common task of the socialist camp, and both China and the Soviet bear responsibility. Since China has contributed both men and money, why does the Soviet Union insist that China pay for the munitions the Soviets are supplying to support Koreans in their war? Why cannot the Soviet Union supply these munitions without compensation?" All the other people who had criticized the work habits of CPC cadres or who raised foolish ideas were condemned as rightists. Even those who did not speak but who did not get along with CPC cadres or whom the CPC found offensive were also labeled as rightists because, it was said, they gnashed their teeth in hatred of the party, and would not even speak, so they had to be "extreme rightists."

Even more terrifying was Mao Zedong's "snake" statement. At a Supreme State Conference (in the early period after Liberation, the Chinese Communists convened such meetings on an irregular basis; in addition to high-ranking CPC leaders, leaders of democratic parties and groups were also invited to attend the meetings), Mao Zedong said (something to this effect), "Since many universities are dissatisfied with their CPC committees, they may consider abolishing the party committee system." Zhang Bojun reported the content of this speech to the Democratic League, and the league Central Committee issued a notification containing Zhang's report to provincial and municipal league organizations. As we know, league members occupied a large proportion of university professorships, lectureships, dean-ships, and presidencies. After they heard the report, league members raised a flurry of issues concerning



abolition of the school party committee system at university discussions regarding support for party rectification. Consequently, all of those who raised such issues were labeled rightists. China was led by the CPC, and the school party committee responsibility system could only be strengthened. How could the committees be abolished? Chairman Mao would never call for the abolition of the party committee system. This clearly had to be a deliberate falsification by Zhang Bojun, and this became one of the "charges" against him when he was labeled a big rightist. And all of the league members who were influenced by Zhang were slapped with a "rightist" label. They bitterly hated Zhang for falsifying Chairman Mao's directive and duping them. But in reality this was a trap that Mao Zedong had carefully laid—someone called it a "secret plot." When Mao Zedong heard this, he retorted, "It is not a 'secret' plot but an 'open plot.' This is called 'luring the serpents out of their holes!'" Use of such a ploy to entrap and incriminate people certainly was unprecedented in Chinese and even world history, and this is further evidence of why Mao Zedong greatly surpassed Emperors Qin Shihuang and Han Wudi.

Zhang Xiruo, who was minister of education at that time, remarked that the "Communists prize greatness and success." Borne out by the experience and lessons of the 30-40 years since the founding of the PRC, this remark hit the nail on the head but during the 1950s was a typical rightist statement. Fortunately, Zhang had good relations with Premier Zhou Enlai, who protected Zhang and saved him from the "rightist" label. But in a meeting, Mao Zedong openly criticized the remark: "It is said that we prize greatness and success. That is right: We prize the greatness and success of socialism. So what is wrong with that?!" When Zhang heard that, he was utterly terrified. At several mass criticism meetings of Luo Longji held by the Democratic League, Zhang went absolutely white with fear whenever he talked about the incident with me!

#### **The Anti-Rightist Campaign Was a Big Catastrophe for Intellectuals**

The condemnation process set targets that had to be met. These targets were roughly five percent, which meant that out of every 100 cadres 5 had to be labeled rightist. Leaders of some organs were more pragmatic and said that their organizations did not really have that many rightists, but Mao Zedong rebuked such leaders: "Do you mean to say your organ exists in a vacuum?! That other units have them [rightists] and yours alone does not?" Failure to meet the target indicated that the organ leadership was "right deviationist," so the party leaders of the organs were themselves labeled rightists. There were many instances of this. I understand that the governor of Zhejiang Province got his label that way.

When an individual was labeled a "rightist," he was condemned to an inhuman life. His wife would not recognize him as her husband, and his children would not admit he was their father. Some wives would sue for divorce, and

some children would break from their parents and leave the parent-child relationship. The community treated him (or her) as a leper, and no one would dare get near him, fearing contamination. Rightists were subjected to five levels of punishment. All CPC members were expelled from the party. As for non-party members, some were demoted in office and rank, some were sent to undergo labor reform, and some were required to do labor under the supervision of their units. The lightest punishment involved reduction in salary but retention in one's original post. Many famous Chinese writers and social activists (including Fei Xiaotong, Qian Weichang, Xiao Qian, Liu Binyan, Wu Zuguang, and Huang Miaozi) got stuck with "rightist" labels, were subjected to as many as 20 years of torture, and lost the most precious years of their lives. This loss is incalculable.

Of course, there was a difference between China and the Soviet Union. In the latter, Stalin's approach was to condemn all dissidents as "enemies of the people" and to "kill them without reprieve," whereas as Mao Zedong's approach was "not to kill" but instead to send people off to labor reform. Thus when Soviet unjust verdicts were redressed, for example, for Bukharin, Radek, and Zinoviev, only the good names of these people could be restored—their bones had long since grown cold! Some Chinese rightists, on the other hand, were able once again, after reform, to make contribution to the society. This is where Stalin did not measure up to Mao Zedong. However, most of the people Stalin purged were dissidents within the party (that is, party members who opposed his dictatorship); he was relatively lenient toward non-party intellectuals. Mao Zedong's anti-rightist campaign, on the other hand, targeted Chinese intellectuals, especially high-ranking ones, for purge. The high-ranking intellectuals were the elite of Chinese society, so China's loss of national vitality greatly exceeded the Soviet Union's.

Most of the successive organized, planned, and leadership-manufactured political campaigns of Mao Zedong since Liberation have been targeted against intellectuals. The so-called Hu Feng counterrevolutionary case and the campaigns to criticize Wu Xunchuan, Tao Xingzhi, Yu Pingbo, Hu Shi, Ma Yinchu, the *Dream of the Red Chamber* and the *Water Margin* all were designed to attack intellectuals, some focusing on a small number of individuals and others focusing on a large mass. But in terms of scale and fury, the anti-rightist campaign of 1957 was a literary inquisition that was unprecedented in Chinese history. Although I luckily managed to escape calamity in this campaign, my hair still stands on end whenever I think of it.

In sum, the anti-rightist campaign was a terrible catastrophe for both the Chinese people and the intellectuals. After the campaign, the Chinese mainland was shrouded in silence. Across the nation, all that could be heard were



songs of praise; only good news was reported, never the bad; the land was filled with false boasting; and people who spoke the truth lay low and kept their mouths buttoned. Deliberate falsification—not just calling a stag a horse, but even claims that ants are bigger than

camels—went utterly unchallenged, because intellectuals' mouths were sealed. Finally there came the Cultural Revolution, a catastrophe unprecedented in history. This was the misfortune of the Chinese people and a tragedy for the Chinese nation!

## NATIONAL AFFAIRS, POLICY

### Reform, Inflation, Inherent Conflicts in State Ownership

40060291 Beijing JINGJIXUE ZHOUBAO in Chinese  
22 Jan 89 p 2

[Article by Fan Gang 2868 4854: "Inherent Conflicts in Reform, Inflation, and State Ownership"]

[Text] *Brief introduction to the author—Fan Gang was born in 1953, received a PhD in Economics from the Postgraduate Institute, Beijing of the Chinese Academy of Social Sciences [CASS] in 1988, and is now a research fellow in the Economics Institute, Beijing of the CASS. His major works are "On Wallace's General Theory of Equilibrium," "The Development and Status Quo of Western Economics," "Theoretical Issues in Price Subsidization" (won the Price Institute award), "Hui's Market Theories," and "Reform, Restructuring, Growth, and Frictional Inflation"; "A Comparison and Summary of the Three Major Contemporary Economic Systems" will be published soon.*

China has achieved remarkable successes and experienced many difficulties in the past decade of economic reform. We have now reached an extremely important crossroads at which there is a pressing need for economists to make a thorough theoretical appraisal and summary of the situation. Why have our repeated appeals and attempts to reduce the size of our state investment and curb overall consumer demand over the last several decades always failed and why have these problems worsened instead? Why have all our attempts at restructuring our economy failed? Why have all countries that have carried out economic reforms (certain Eastern European countries and China) finally run up against such puzzling inflation, which is caused not by a single "release" of past "curbs on" consumption, but occurs repeatedly within short periods and gets worse each time? Our attempts to sum up these problems as mere "policy errors," "unhealthy tendencies," or "management" problems are obviously becoming less and less convincing.

Theorists must search more deeply for the causes of these economic problems. Based on a series of economic realities both before and after several decades of reform, we must positively sum up the inherent conflicts in our economy, the objective laws that govern our economic operations, and the intrinsic logical relationships between our past reform practices and the various economic problems that have arisen now. Only in this way can we define the direction that should be taken to advance and intensify our reforms.

The roots of the various problems that are now appearing in China's macroeconomic operations can be found in the following three inherent basic economic conflicts in our system of state ownership of the economy:

1. The Conflict of Interests Over Investment Versus Consumption Between the State as the Owner and the Public as Nonowners: Its particular form of expression is

a too "high investment" tendency by the state and too "low investment" and "high consumption" tendencies by the public. In the process of devolving authority to lower administrative levels, the curbs on local and enterprise consumption tendencies have been released too much. Since localities and enterprises have been consuming a bigger share of the national income, the state as the owner has still had to maintain a fixed percentage of investment to maintain a proper economic growth rate. It has only been able to accomplish this by relying on the use of financial deficits and expansion of investment credit, i.e., by issuing more currency.

The nature of state ownership per se stipulates that the equal ownership of the economy by all the people must be centrally reflected, represented, and exercised by a unified and sole principal owner. This sole principal owner is the state. The process of realizing this ownership has led to the state alone having an economic status as the owner of the economy, while all the other people have an economic status as nonowners. The state as the owner of the means of production must consider investment, while all the other people as nonowners, on one hand, do not have to consider any of their income as coming from past investment in property and, on the other, do not have to worry about investing in the means of production. They are only interested in how to get a bigger share of the national income to increase their current consumption. This means that the issues of national income distribution and economic structure must contain the following two conflicting "investment" (or consumption) tendencies: 1. The too "high investment" tendency by the state (high and low are used relatively here); 2. The too "low investment" or "high consumption" tendency by the public.

The conflict between these two investment tendencies laid dormant in our traditional planned economy because the state controlled everything, including income distribution and all expenditures, so that the high consumption tendency that actually existed among the other people in the economy could not be realized. But dormancy is not nonexistence. All of the earliest economic reform measures that were adopted to raise the percentage of income for consumption and increase the production of consumer goods, such as raising the procurement prices of agricultural products, raising wages and bonuses, and building more housing, were caused by the awakening of the dormant conflict between the two investment tendencies. Reform of our traditional economic system further exacerbated and fully exposed this conflict because, in the process of making localities responsible for their own finances and expanding enterprise decisionmaking power and the enterprise contract system, some of the decisionmaking power that had been centralized in the central government, including that over income distribution and expenditures, was devolved to localities and enterprises.

This enabled the pressure to raise the percentage of income for consumption that was widespread in the economy (including that to raise bonuses and give material objects) to directly affect income distribution and achieve real results. It also made it easier for the officials at all levels who directly exercise the decisionmaking power over income distribution and expenditures to increase their bureaucratic consumption (limousines, banquets, hotels, etc.). The so-called consumption inflation that has arisen in the last few years is a direct result of authority having been devolved to lower administrative levels. But along with the actual development of the effects of this high consumption tendency on the "lower levels," the high investment tendency of the "higher authorities" has still had a really dominating effect on the economy, and the state as the owner of the means of production has still had to try to maintain a fixed percentage of investment and production of investment goods to maintain a proper economic growth rate. But since the "lower levels" have been consuming a bigger share of the fixed national income, the state has only been able to maintain a fixed percentage of investment by relying on the use of financial deficits and expansion of investment credit, i.e., by issuing more currency and "redistributing the currency" of the national income, which has caused inflation. Moreover, along with the general price increases that have occurred, the conflicting tendencies in income distribution percentages, the economic structure, and price relations have all resurfaced.

We call the inflation that has resulted from the above basic conflict "frictional inflation." It was caused by the conflict and friction between the two investment tendencies that have had a real effect on the economy, and will certainly continue to reoccur and worsen.

2. The Conflict Between the Hard Resource Limitations on the Economy as a Whole and the Soft Investment Budget Limitations on the Managers of Basic Economic Operations: Its particular form of expression is a conflict and competition of interests over the distribution of limited income among all localities and enterprises within soft investment budget limitations. The result of this competition is national credit, investment, and currency inflation.

In state ownership, the managers of all basic economic operations all have their own special interests. These special interests conflict with each other because one party getting more in a situation of limited overall resources and income means that another party is bound to get less. Moreover, a particularly important characteristic of the conflict or competition of interests between the basic units in state ownership is that it is caused by soft budget investment limitations and, thus, "its profits are private and its losses are shared." Since basic units do not have to worry about losses, bankruptcy, or inability to repay debts, they can usually overlook and not count the cost of their investment risks. Although too much investment is unfavorable to the general welfare of

the people and society, it is usually profitable and can earn net profits for the managers of individual economic operations. This has caused an inevitable inherent tendency toward investment inflation to exist in the state-owned economy.

In our traditional centralized and planned economy, the competition of interests over the distribution of resources and investments among all localities and enterprises had to develop through the State Planning Commission's "investment competition" mechanism. Thus, it was still controlled to a certain extent and its effects had not yet fully appeared. But since localities were made responsible for their own finances and enterprise decision-making power was devolved to lower administrative levels, this conflict and competition of interests has been developing and intensifying. In addition to all areas using their administrative authority to carry out "local separatist" monopolization of resources, new forms of competition are appearing. On one hand, enterprises are giving as much of their profit income as possible to their staff members and workers for consumption and competing for as much credit as they can get to increase their investments. The result is that if the "higher authorities" want enterprises to increase their production, they must give them more credit.

On the other hand, since there are various conflicts in the system of state ownership and local governments have a certain amount of budgetary control over local banks, and actually have a certain amount of control over credit (currency) issue, expanding local investment and expenditure decision-making power actually increases local control over currency issue. Moreover, local governments have to use this control to give as much credit as they can to enterprises and administrative units in their areas so as to increase the buying power of their areas in the competition to buy limited material resources, increase the actual percentage of the national income that is distributed to their areas, and avoid losses that they might sustain from price increases resulting from increased currency issue in other areas.

Since credit is a "free commodity" for local governments and enterprises within soft investment budget limitations, they are especially "competitive" in granting or requesting it. The result of this competition is interregional "credit" or "currency" wars which cause national credit, investment, and currency inflation that is hard to prevent. We might as well call the inflation that is caused by this economic conflict "basic-level-motivated inflation." It is peculiar to our state-owned money economy and is caused by a particular conflict (soft investment budget limitations vs local control over currency issue).

3. The Conflict Between the Generally Public Nature of Economic Decisions and the Private Interests That the Actual Policymakers Bring Into the Decisionmaking Process: In restructuring, the super-profits resulting from commodity shortages and price increases are often



appropriated by "officials" as nonproductive income and not allowed to affect production. Thus, structural commodity shortages still exist and make it impossible to curb inflation.

A conflict generally exists in contemporary society between public decisions and the private interests of the policymakers. Moreover, the universality of this conflict is a peculiarity of our state-owned economy. Except for personal consumption and employment decisions, all macroeconomic and microeconomic decisions on production, exchange, and distribution in the economy are of a public nature while having to be made by only one or a few people. A really effective function of our traditional centralized and planned economy in resolving this conflict and preventing the privatization of public power was that it reduced the number of public decisions that had to be made by basic-level people to a minimum through a high degree of centralization of power. But the cost of this was enormous efficiency losses, such as the economy lacking a driving force, information being incomplete, and operations being rigid. Thus, the economy per se contained an inherent tendency toward negating a high degree of centralization of power. Economic reform conformed to this tendency to a certain extent, decentralized economic decisionmaking power, and generally and fully exposed the conflict between public decisions and the private interests of policymakers. Many phenomena that have appeared in the last few years, such as the privatization of public decisionmaking power, the transformation of public productive income into private nonproductive income, and all kinds of corruption, such as official profiteering and bribery, developed along with the decentralization of economic decisionmaking power. The reason why it has been so hard to punish those who practice and eliminate these so-called "unhealthy tendencies" is precisely because the universality of public decisions has made it particularly hard to achieve effective social supervision that would prevent the transformation of public power into private interestseeking.

It is worth pointing out that this economic conflict is one of the basic causes of the current continued worsening of inflation. In a competitive market, after the first commodity shortages and price increases, supply will regulate itself according to demand and enable the inflation tendency caused by the structural imbalance to disappear. But when official profiteering occurs, the superprofits resulting from commodity shortages and price increases cannot become extra income of producers in that sector, but are appropriated as private nonproductive income by nonproducer "official profiteers" (product distributors). This causes these price increases to lose their effect on production in the following ways: 1. They are no longer a source of funds for producers to use to increase production and supply; 2. They no longer become an economic incentive to channel more investment of productive resources into the production sectors that need them. This makes it hard to increase the production and supply of commodities that are in short

supply and generally makes it impossible to restructure social production. Price increases without correspondingly increased supply make it impossible to curb the inflation tendency that is caused by structural commodity shortages.

The development and worsening of these three economic conflicts in our economy in the last few years have enabled the particular factors that cause inflation to play an intervening role and cause general inflation to worsen daily and become a vicious cycle. This analysis certainly does not imply that we think that past reforms were "carried out to no effect." Practice has proved that the economic problems that we are now experiencing are actually an inevitable result of our evolving economic development, just as reform itself was an inevitable result of developing economic conflicts. Our understanding has evolved to the point where we know that on one hand, while we have now begun to devote our efforts to eliminating the most obvious defects of our traditional system, such as overcentralization of state power, over-rigid economic operating procedures, and a general lack of economic incentives, we have overlooked to a certain extent certain other problems of inefficiency that were caused by decentralizing power without changing state ownership; on the other hand, we could not have fully exposed and developed a full and clear understanding of the inherent conflicts in our state-owned economy without the last few years of reform. The development of reformers' perceptions has also become subject to practical limitations and objective laws.

But this analysis can also certainly prompt us to thoroughly consider our strategy in intensifying reform. The general understanding in the past was that existing economic problems were a result of defects in our management or economic operations. Thus, the basic guiding ideology of our past strategy was to "decentralize power without changing state ownership."

But we have now come to realize that the various problems that exist in our economy are not caused simply by microeconomic issues, such as enterprise actions. Rather, macroeconomic issues, such as inflation, are rooted directly in state ownership per se and are caused by its various inherent economic conflicts. If we do not change this fundamental condition but try to reform our management or economic operations alone, overcoming one problem will inevitably result in the appearance of another and it will always be hard to put our economy onto a healthy course of efficient and orderly development.

Thus, our choice of a basic strategy to further intensify reform is to speed up the pace of state ownership reform and correspondingly slow down the process of "decentralizing power," so as to try to basically resolve the various fundamental conflicts in our state-owned economy itself first. Only in this way can our economic climate be basically brought under control, power, including that which has now been "recentralized" to

curb inflation, be finally devolved to the true managers of market activity, and our economy finally escape from the "puzzling trap" that it has now fallen into.

**Article on 'State Regulates Market, Market Guides Enterprise'**

40060378 Beijing JINGJI LILUN YU JINGJI GUANLI [ECONOMIC THEORY AND BUSINESS MANAGEMENT] in Chinese No 1, 28 Jan 89 pp 75-80

[Article by Zhou Chuanlong 0719 0278 7893: "Summary of Discussion on the 'State Regulates Market, and the Market Guides Enterprise' Model"]

**[Text] I. Different Interpretations of the "State Regulates Market, and the Market Guides Enterprises" Model Itself**

Cai Xingxiu [5591 5887 4423] expressed the opinion, The operational mechanism for the "state regulates the market, and the market guides enterprise" model has the enterprise as its foundation, the state as main guidance, and the market as intermediary. It integrates the macroeconomic unit (state) with the microeconomic units (the enterprises) through the organic integration of plan regulation and market regulation, and through the intermediary and pivotal function of the market. In substance it is the state in its capacity of owner of all state-owned property and administrator of society makes all macroeconomic policy decisions for all economic activities of an overall strategic nature concerning the national economy, starting out from the interests of society as a whole and on the basis of a conscious application of the law of value. The state also makes planned dispositions of fundamental socioeconomic proportionate relations. The state, furthermore, by the primary means of its unified plan and through a variety of economic parameters and economic policies, regulates and controls the market. In the operations of the market, various signals are sent out which guide the enterprises in their decisions on their own production and business activities. This will result in conformity of microeconomic policy decisions of the enterprises with the macroeconomic objectives of the state, and will achieve a harmonious development of the national economy. The system would have the following characteristics: 1) An integration of macro-control with microeconomic liberalization and revitalization. 2) Assumption of an intermediary position by the market, which will become core of socioeconomic activities and function as a pivot standing between macroeconomic and microeconomic concerns, and between strengthening economic vitality and increased economic returns. 3) Achievement of an intrinsic unity of plan and market in a mutual interaction of state, market, and the enterprises.

Jiang Xuemu [5592 1331 2875] understood the mechanism of the "state regulates the market, and the market guides enterprise" as a new type of an economic operational system of "planned economy to be the dominant factor and market economy to be the foundation." He

believed that as far as macroeconomic operations, which are the main form of guidance for national economic development as a whole, are concerned, the system is subject to state plan regulation, but from the viewpoint of the economic activities of the enterprises, which form the foundation of the development of the entire national economy, the system is subject to market regulation. Microeconomic activities by the enterprises under market regulation of course effect an influence on every corner of social production. The state's plan regulation, through the intermediary of the market, also affects all sectors of production and all enterprises. Within the whole scope of their functions, plan and market cover the entire society. The formulation "state regulates the market, and the market guides enterprise" expresses an organic integration of plan economy and market economy, states clearly that the socialist state will simultaneously use both methods and forms, namely plan regulation and market regulation, and will consciously maintain throughout the sphere of the entire society a harmonious development of the national economy.

Li Chengrui [2621 2052 3843] then also raised the question of principal line and supplementary lines of action in this new economic operational mechanism. He pointed out that "the state regulates the market, and the market guides enterprise" is the principal line, while there are at the same time two supplementary lines of action. One such line is the state's direct control of an extremely small number of key projects and special enterprises. The other line is allowing complete market regulation for certain small enterprises and small commodities. The former is necessary because the function of the market is limited with regard to any long-term structured control, especially since China is in the primary stage of socialism, and it would take too long for the market to accumulate the huge capital required for large key projects, as it would also not be economical at all to do it that way. Another reason is that in the case of certain important commodities, it would simply not do to leave everything to the spontaneous fluctuations of the market, and state intervention is necessary to secure the livelihood of the people. Of course, any portion directly controlled by the state should also, as far as possible, be incorporated in the mechanism of the market. The latter line of action is necessary because in the primary stage of socialism the economy is one of multiple ownership systems with public ownership in dominant position, and the state plan cannot possibly be "complete in every detail," so that supplementary sectors, such as individual economy, small-scale privately operated economy, and some sundry small commodities could be left outside the plan and left to be regulated by the market. Of course, all concerned must abide by state law and state policies, and the state plan may also indirectly have an influence on that sector of the economy. In this sense, the functions of plan and market cover all of society.

Wei Xinghua [5898 5281 5478] and Wei Jie [7614 2638] contributed their further understanding of the state's regulation of the market. They expressed the opinion

that if we look at it under the aspect of the entire activities of the state's market regulation, the targeted objectives of the state in its regulation of the market is not regulation of single parameters, but a compound regulation, but that it is only that regulation of parameters make up the main body of the state's activities of regulating the market. They believed that whether viewed under the aspect of its present immature condition or under the aspect of a maturity to be gradually achieved in future, China's market comprises four different markets: a planned limited market, a planned comprehensive market, a market that is linked with the world market, and a market that develops spontaneously all by itself. The state must control all four kinds of market, but in a different form for each case: analogous market regulation, regulation by market signals, regulation of the environment in which the main actors in the market operate, and regulation of the rules under which the market operates.

## II. Feasibility Study of the "State Regulates the Market, and the Market Guides Enterprise" Model

Opinions are now still widely divided whether the "state regulates the market, and the market guides enterprise" model can possibly be implemented in China, and there are essentially three different schools of thought on this question:

First viewpoint: A complete endorsement of the said model in the belief that it suits the present demand that China presently develop a planned commodity economy, and that it is an excellent pattern for dealing with the relationship between state, market, and enterprises.

Li Chengrui expressed the opinion that the "state regulates the market, and the market guides enterprise" model, as it starts out by allowing the enterprises a relatively large measure of independence as producers and traders of commodities, it affirms, on the one hand, that the enterprises may make policy decisions concerning their business affairs on their own authority, as long as these are based on state policy and within market parameters. On the other hand, as it also starts out from the premise that China's national economy is predominantly one of socialist public ownership, the said model affirms that a socialist country, when consciously and in a planned manner regulating the market to the extent that it effects a complete control of the market, the result will be that the macroeconomic policy of the state is transmitted mainly through the mechanism of the market to the enterprises. This new mechanism for economic operations is different from the operational mechanism of any ossified or semi-ossified economic system, and also different from the operational mechanism of the capitalist market economy which is based on private ownership. One may say that it is an operational mechanism of planned commodity economy with Chinese characteristics.

Wang Jue [3769 3778] went further by stating as his opinion that in the case of "the state regulates the market, and the market guides enterprise" the enterprises independently determine, according to various market signals, their own production, their business operations, and their investments. Linkage between state and enterprises, between macroeconomic and microeconomic concerns, and between the various enterprises is established by the market as intermediary. The joint move of these three—the state, the market, and the enterprises—form an organic entity, and that is the target model of socialist economic operations; it is the fundamental direction of economic structural reform. He expressed the opinion that an identity of plan and market is not only necessary but also possible in the socialist commodity economy. The modern development of commodity economy, especially the establishment of modern financial and monetary systems, provide a complete set of effective means and methods for the state's planned regulation.

The Finance and Commerce Institute of the Chinese Academy of Social Sciences has discussed this issue also under the aspect of the self-organizational function of the market. It was pointed out that under the conditions of socialist commodity economy, the state's regulation of the market has become an inherent demand posed by the market's self-organizational function. The self-organizational function of the market under the conditions of socialism will not only solve the problem of enterprises engaging in shortsighted actions, but will also solve problems in the long-range trends of enterprise actions and of the development of the national economy. Market regulation by the state, therefore, becomes a demand posed by the self-organizational function of the market. For its regulation of the market, the state has available legal methods, administrative measures, and economic measures. Through legislation and law enforcement, the state determines and maintains the scope of market operations, ensures self-restraint in market operations, and has them conform to the long-range objectives of economic development. Through administrative measures the state can compel prompt rectification of abnormalities in market operations, and can reduce turbulence in the market.

The second viewpoint is of the opinion that this particular model is not feasible in China under present conditions.

Ju Xiuli [7263 4423 4409] pointed out that there were two "breaking points" in the chain of "the state regulates the market, and the market guides enterprise." The first "breaking point" occurred in the "state-enterprises" configuration, mainly characterized by the loss of effective macroeconomic control. During the reform of the urban economic system, direct control measures of the state were sabotaged, while no measures of indirect control were set up. Most conspicuous was the failure to provide a comprehensive macroeconomic regulation; each economic lever was left to go its own way, and it



was impossible to form a joint force. As a consequence, the state was much weakened in relation to the market, and in its regulatory and controlling capacity over the entire economy. The second "breaking point" was engendered in the "market-enterprise" configuration, particularly evident in the dislocation of the operational mechanism. On the one hand, the market mechanism became distorted. Under the conditions of a buyer's market it became impossible to implement the principles of the commodity economy, which was the cause for the emergence of many "speculators and profiteers" in the area of circulation. They utilized monopolistic positions for speculative buying and selling, hoarding of goods and cornering the market, driving prices up, and bringing about a situation in the area of resources, where it had originally been possible to steady the market, where then finally there were "price quotations without a market" and "markets without price quotations." On the other hand, the micro-mechanism of enterprise operations became distorted. Under the effect of the drive for "maximization of distribution," there was a general tendency among enterprises for short-range actions, for consumption-oriented use of retained profits, and for a rigidity as far as assets were concerned. Since it was not possible for the market to provide the enterprises with accurate directive signals, and not possible to satisfy the demand of the enterprises for key production elements, whenever the enterprises met with problems, they would seek out one "m" [the mayor] and not the other "m" [the market], and thus imperceptibly increase dependence of the enterprises on government administration.

Zhang Zhenbin [1728 2182 2430] further stated that in his opinion a deep reflection on this topic, under the aspect of what forms macroeconomic regulation could assume, will reveal that there is still a large difference between the "state regulates the market, and the market guides enterprise" and the planned commodity economy. 1) The said formulation still denies any market factor within macroeconomic regulation. In actual fact, socioeconomic life within commodity economy has essentially come into being in its linkage with the market and is being conducted in form of market operations. The consumption of every producer also depends on the capability of the market to supply commodities and on the size of income at his disposal, realized in market activities. Actual operation of the commodity economy shows that the market mechanism comprehensively regulates all sectors of socioeconomic life. It is therefore not enough to deal only with the market function of guiding the enterprises, without mentioning the market function within the macroeconomic field. 2) The said formulation as such still signifies a splitting apart of plan and market, and in essence does not break out of the fetters of "plate tectonics." Indeed, the role of the market, emphasized in this topic, is brought into play under the guidance of the plan, and the indirect control, of which there is talk here, frequently applies to the microeconomic units, but as to the market itself, especially as to its macroeconomic operations, it is actually still a direct regulation. 3) The said formulation still retains the inherent bias against

market and plan, namely that plan is unconditionally considered above market and something superior to market, believing plan to be a regulatory form of a higher level and superior quality as compared with the market. According to the order of historical developments, it did exist, compared with market mechanism, in the more developed commodity economies. However, the plan by itself did not and cannot substitute for the positive role of the market mechanism. The plan and market are things of the same level, and neither is higher or lower than the other.

The third view has it that the "state regulates the market, and the market guides enterprise" model is amelioration, and not reform. Song Yangyan [1345 7402 8827] pointed out that the said model is in essence one in which the state is the primary factor and the market is relegated to the position of intermediary, it is still a kind of doing things from the top downward, a perpendicular, one-way line-oriented regulatory model. It has three shortcomings: First, it gives the impression that the state is the only prime agent in macroeconomic regulation. Second, enterprises are placed in a passive position, to be let by the market as if leading someone by the nose, leaving the enterprises without possibility to display independent initiative or any of their special capabilities. In the complexity of the commodity economy, the prime agent in macroeconomic regulation must not be a single unit, but a multiplicity of units, which includes enterprises, the market, and the state (and no change to be made in this order). Regulation must not be a one-way road, but a two-way road. Third, the fundamental relationship and positional order must not be state, market, enterprises, but rather enterprises, market, state.

### III. Conditions for Realization of the "State Regulates the Market, and the Market Guides Enterprise" Model

Dong Fureng [5516 6534 4356] pointed out that the "state regulates the market, and the market guides enterprise" model is the one we intend to realize and achieve in China's economic reform. Presently, China is still engaged in the process of shifting from the traditional model of economic operations to the said target model. To establish and realize this model, China will have to undergo a protracted process; it is not an easy matter. To accomplish the shift, it is necessary to exert efforts in four directions: 1) We must transform those enterprises that operate under the system of ownership by the whole people into units over which the state will exercise predominantly indirect forms of regulation and control, i.e. into prime agents of macroeconomic control with a capability of being objects of indirect market regulation. 2) We must establish and foster a socialist market system, having the market truly become an intermediary link that effectively links state and enterprises. 3) We must gradually transform the methods by which the state regulates the economy. 4) We must continue to develop a structure of multiple ownership systems, in which a multiplicity of public ownership systems should play the dominant role.

Li Chengrui pointed out, "Establishment of the 'state regulates the market, and the market guides enterprise' operational mechanism requires as its 'fundamental condition' an approximate equilibrium of total social demand and total supply. The reason for this is that only by having an environment in which there is an approximate equilibrium of supply and demand will we have the benefit of mass support for reform measures. Only then will the enterprises be able to attain true self-determination, will the market system be able to develop normally, will it be possible for macroeconomic control to employ predominantly indirect control, will it be possible to move the national economy gradually from the track of predominantly extensive to the track of predominantly intensive business operations, will it be possible to establish a normal economic order. As a consequence, we shall gain the benefit of transforming the old economic system and its operational mechanism into a new economic system and a new operational mechanism."

Cai Xingxiu expressed the opinion that the gradual establishment of the "state regulates the market, and the market guides enterprise" operational mechanism must create favorable conditions on the three levels of sound macroeconomic control, formation of a market system, and transformation of the business mechanism of the enterprises. 1) For a reform of the plan system and establishment of a sound system of macroeconomic control, which would predominantly employ indirect control measures, it is necessary to effect a comprehensive reform in the areas of planning, investments, material resources, finance and taxation, monetary affairs, pricing, and foreign trade. It would also require strengthening the comprehensive sector and raising the capacity for macroeconomic comprehensive regulation of all activities of the national economy, improving the system of gathering economic information and of consultations on policy decisions, formulating adequate economic laws and regulations, and setting up a judiciary for economic affairs, and replenishing the system of economic inspectors and supervisors of all ranks. 2) Formation of a market system and establishment of a market organization. The state should provide the market with information and capabilities by means of informational guidance, by its policies, by legal norms, and by economic levers, thereby having it assume an orderly structure, which would (a) ensure orderly competition in the market, (b) redetermine market prices, and (c) guide pricing in the market. 3) Enterprises should operate a sound business mechanism, completely free from the fetters of administrative organs, so that they will truly attain self-determination in their business operations and become commodity producers and traders, bearing full responsibility for their own profits and losses.

#### IV. Exploring New Models of Macroeconomic Regulation

In the course of discussing the "state regulates the market, and the market guides enterprise" model, many comrades set forth ideas on new models, thereby enriching the discussion. We shall now sum up some of them:

Zhang Zhenbin [1728 2182 2430] put forward a "plan-inclusive market model." In his opinion, 1) The "plan-inclusive market model" has the plan exist and exercise

its function within the actual market, and as a consequence it will generate an inherent unified entity of plan with market on the basis of the planned commodity economy. 2) The "plan-inclusive market model" would place the plan itself in relation to the market into a position of mutual restraint and regulation, and as a consequence would fully realize the feedback character of macroeconomic regulation. 3) The "plan-inclusive market model" would consider the total macroeconomic capacity as the total economic capacity realized in market operations. This would render the total macroeconomic capacity conducive to market operations, providing a precondition for the market to assume an important function in macroeconomic regulation. 4) The "plan-inclusive market model" provides through market operations a more directly linked mechanism for total and individual capacities, and as a consequence has total capacity relating to individual capacities, and individual capacities relating to total capacity, and, furthermore, provides a guarantee for the comprehensive orientation of macroeconomic regulation and a macroeconomic orientation of microeconomic operations. 5) Although superficially seen, there seems to be a direct relationship between plan and enterprises in the "plan-inclusive market model," the relationship arises in the market. In this respect it is essentially different from the traditional system of direct administrative adjustments, and is therefore capable of rendering the relationship of plan to enterprises, i.e. state to enterprises, into an economy-conscious relationship, thus providing an effective microeconomic foundation for the macroeconomic regulation. 6) The relationship between total macroeconomic capacity to plan in the "plan-inclusive market model" requires as precondition that the total macroeconomic capacity be rendered conducive to market operations, so that the formulation of a macroeconomic policy for the plan structure has an inherent economic basis, thus raising the effectiveness of the plan regulation method.

Li Yining [0632 0110 1337] put forward a "second regulation theorem." In his opinion the market itself has a self-regulatory capacity which can bring about an equilibrium of supply and demand. However, market regulation has certain limitations. 1) Through market regulation alone, it will be a very protracted process to get from a supply-demand imbalance to a state of balance. 2) Even if commodity price increases are caused by the inability of aggregate supply to meet demand during the process of market regulation, due to the fact that commodity prices are mutually linked, it is uncertain to what extent after all commodity prices subsequent to interrelated marketing fluctuations will be the cause for effecting commodity supply and demand adjustments, thereby achieving equilibrium of total supply and total demand. 3) If the market is allowed self-regulation, because supplies are subject to the restrictions in the availability of resources, it will not be possible to have

commodities in short supply just by themselves rectify prices only according to the supply-demand ratio, it will thus also not be possible to have them by themselves regularize the relationship between supply and demand through an adjustment of prices. 4) In actuality the economic information system is not at all perfect, and those involved in the production or trading of social commodities are not able to obtain promptly in the market all the useful information they need. 5. Although market regulation may result in a tendency toward a supply-demand equilibrium, it may not necessarily conform to the aim of social and economic development. Precisely because market regulation is subject to the mentioned limitations, government regulation is still needed in the course of economic operations, and we may call government regulation the second regulation. If the first regulation cannot meet the demands of the socioeconomic development, a second regulation becomes necessary. The second regulation can also have a preventative character, namely when the government foresees that the first regulation cannot possibly conform to the goal of socioeconomic development. There would then be no need to wait and see whether the first regulation will show an imbalance, before taking action in a second regulation. In short, there is no chronological order for first and second regulation, it is the question of regulation at two different levels. The second regulation is a regulation at a higher level.

Luo Haiping [5012 3189 1627] then again raised the question of the "state regulates the market, and the market guides enterprise" model. He pointed out that it is not the responsibility of the state to place itself above the market and to manipulate the market, but rather to use coercive means according to publicly recognized guidelines to normalize the conduct of all persons, in order to protect the effective operation of the market. In concrete terms, the government has three functions in maintaining market order: 1) It must maintain conditions that will allow the start of market operations. The modern market economy operates on the foundation of a certain proportionate relation being maintained between the total amount of property and the ownership certificates for common value equivalents, i.e. the quantity of circulating paper currency. Because the value of paper currency is completely bound up with the conditions of its issue, the government that has the right to issue paper currency possesses the special power of influencing operational conditions of the market, while the market itself is in no position to directly and simultaneously restrain actions of the government. This demands of the government that it assume responsibility for restraining its own currency issuing activity, so as to avoid an inappropriate amount of currency being issued, which would cause the value of the currency to fluctuate in the market. 2) The government must uphold the principle of general fairness in market transactions. The four elements of this principle are assuring equal status to all parties participating in market transactions, ensuring equal value in market exchanges, allowing equal

opportunity to all parties participating in the competition, and ensuring equality of the rules that normalize all exchange activities. By means of democratic legislation, government can enact various social laws and regulations, which must be observed by all economic agents. It must at all times restrain and rectify the conduct of parties to business transactions, and must rely on society for supervision, so as to reduce to a minimum all unfair business activities. 3) The government must supplement any space-time deficiencies in the market mechanism. The government in its capacity of agent for all public resources may employ such means as charging rents, taxation, insurance premiums, and fines to levy fees directly from all beneficiaries, consumers, or saboteurs. This money may be used as the source of capital for maintenance, compensation, or the development of supplementary resources, and also to impress on economic units the need to be careful in the use of public resources. This is actually having the government, in the role of an intermediary, rely on market economy measures to internalize external economic problems and to materialize future restrictions. The aim of the government in fulfilling the said three functions is none other than to protect the basic function of the market and to bring them into play to the largest extent possible.

Jin Jian [6855 6943] then put forward the model of the "planned market mechanism." He believed that since the present is the stage of planned commodity economy, plan and market should be combined into one organic entity, and certainly must not be split into two sections. Furthermore, operation of market mechanism has its foothold in a commodity economy, while the market mechanism is also the core of a commodity economy. When operating a socialist economy, operation of the market mechanism must therefore be the dominant factor. Energetic pursuit of a commodity economy must bring the due functions of market mechanism even more fully into play. Plan guidance as a necessary demand inherent in the market mechanism can only be established on the basis of a commodity economy category, and, moreover, may be included in the various regulatory processes of the market mechanism, assuming a guiding function as to prognoses and policy decisions. Regardless of the formulation of the plan, its adjustments, corrections, and the realization of whatever links, all such acts must be related to the objective and regulatory process of the market mechanism. This kind of plan, merged into one with the market, this indispensable and indivisible market mechanism, may be called the "planned market mechanism." Why do we say that the plan mechanism and the market mechanism are an organically united entity? This author believes it is because: 1) The essence of any plan is still the functional process of the market mechanism, and as a consequence it is also an objective demand of the law of value. 2) Plan and market are two sides of the functioning of the law of value. 3) The various measures of adjustment of parameters used by plan guidance are determined on the basis of signals inherent in market mechanism. 4) The need of market mechanism for plan guidance is an objective



trend of the combined macroeconomic and microeconomic factors. 5) Perfection of the plan system is determined by the extent to which the market system has been perfected. 6) The two forms of manifestation of the plan are also being restrained by the effect of the market mechanism.

Qu Mu [2575 2606] and Sheng Ming [0524 2494] then put forward the theorem of the "three-level, two-way structure." In their opinion the macroeconomic regulatory system of commodity economy is composed not only of one, but of three levels, namely the enterprise level, the market level, and the state level. Although the status and role of each regulatory level is not altogether the same, they are all indispensable organizational parts of the regulatory system. Regulation at each level affects the other levels, but on the other hand each level is also subject to adjustments by the other levels. As a consequence, they form a two-and-two linked, three-level, two-way regulatory structure. In this system, speaking of the regulatory relation between enterprises and market, the enterprises are the dominant element of the market; without enterprises there can be no market. In this way, determination of the market mechanism has to be based on enterprise mechanism. The enterprises, with their business activities adapting to changing conditions, enliven and restrain the market, also regulate capacities and supply-demand conditions of the market, while the market with its special functions (price, competition, interest rates, risk mechanisms) regulates enterprise behavior and guides the enterprises in organizing production and circulation according to supply and demand in the market. In the two-way regulation as between enterprises and market, enterprise regulation is the foundation, and market regulation is the manifestation of enterprise regulation in the market. To sum up, in the cyclic system of the national economy, none of the three levels, the state, market, and enterprise levels, can be missed. Without state regulation there would be nothing in macroeconomic respects that could provide the needed control of irrational enterprise actions and indiscriminate market activities, and this would naturally lead to chaos in the national economy and eventual ruin. Denying the regulatory functions of enterprises and market would mean that only the state plan would be left to give orders to market and enterprises, and that no market and enterprises of an independent nature could be developed. In this way, the state plan could not possibly play its role of guiding and coordinating the development of production.

### FOREIGN TRADE, INVESTMENT

#### Shanghai's Effort To Attract Foreign Investment Detailed

40060424c Shanghai SHIJIE JINGJI DAobao  
in Chinese 27 Feb 89 p 2

[Article by correspondent Shu Hanfeng 5289 3352 6912: "Features of Shanghai's Effort To Attract Foreign Investment—The Basic Outline of the Municipality's Effort To Utilize Foreign Capital Has Taken Shape; the Investment Mix Is Becoming More Rational; a Development Zone Is Beginning To Emerge; and Foreign Capital Is Being Attracted to Both City and Countryside"]

[Text] A 98 percent success rate, an industrial project share of 60 percent, and a cumulative foreign exchange balance of \$125.33 million have enabled Shanghai to leap to the front of the entire nation in terms of the achievement and economic results obtained in developing foreign-invested enterprises [FIEs].

According to preliminary statistics, as of the end of 1988 Shanghai had approved a total of 510 FIEs, of which 200 are already in operation and showed a total output value of \$3,218,760,000 yuan, earned \$99.05 million in foreign exchange from exporting, paid 158.56 million yuan in taxes, and showed a surplus of \$43.14 million in foreign exchange last year. During the year, these firms accounted for 2.98 percent of Shanghai's gross industrial output value, up from 1.12 percent in 1986, and for 2.15 percent of the municipality's total foreign exchange earnings, up from 0.62 percent in 1985.

In addition to the foreign exchange balance mentioned above, Shanghai's cumulative achievements in developing FIEs over the past 3 years are as follows, in order of importance: gross output value of 6,338,280,000 yuan, foreign exchange earnings of \$219.04 million, and tax payment of 318.64 million yuan.

Of course, the development of FIEs is only one part of Shanghai's effort to utilize foreign capital. Lu Guoxian [7120 0948 6343], vice chairman of the Shanghai Foreign Economic Relations and Trade Commission, announced to the press that in 1988 Shanghai approved a total of 309 projects utilizing foreign capital and attracting \$545 million in foreign investment, increases of 80 and 30 percent, respectively, over the previous year.

A summarization of Shanghai's approaches and achievements in attracting foreign investment reveals the following features.

1. The commencement of operations by and the excellent development of a number of key FIEs has established the foundation of Shanghai's work in utilizing foreign capital. For example, the Dazhong Motor Co, the Yaohua Pilkington Glass Co, Foxboro Ltd, and the Dajiang Aquatic Farm are famous both at home and abroad, are quite advanced technologically, produce goods that consistently sell well, and boast good economic results.

2. The investment mix is gradually becoming rational. Initially, because we attempted to improve the investment climate, which was a problem because of the difficulty in arranging lodging for foreign businessmen, and to achieve results and balance foreign exchange flows as quickly as possible, tertiary industry and intensive labor enterprises accounted for a considerable share of all FIEs. But after nearly 2 years of readjustment, projects involving industrial production now comprise more than 60 percent of the total and are introducing advanced technology and management practices.

3. The development zone and a microclimate are beginning to take shape. By providing excellent and effective service, the Minhang Industrial Technology and Economic Development Zone has induced a number of famous multinational corporations, such as the Xerox and (W.R. Grace [2706 7191 2448]) companies and sophisticated chemical industries, including those producing molecular sieves, to come and invest and set up factories in the zone. Many foreign businessmen and journals have praised the overall quality of the zone as "tops in the country."

4. The program of bringing in foreign capital is beginning to spread from state enterprises and urban areas to local collective industry and township enterprises. Last year, approval was granted for foreigners to buy into nearly 100 of these two types of entities. This development has provided an important stimulus to the improvement of these entities, which have weak bases, and to increasing export foreign exchange earnings and the level of orientation to the outside world.

It must be noted that the 98 percent success rate greatly exceeds the national average and even the rates of some regions that opened up earlier.

What is the outlook for the effort to develop FIEs this year? How many such enterprises will go into operation? What will their output, tax payments, foreign exchange earnings, and balance of foreign exchange holdings be? When such questions were posed to a responsible official of the municipality, he did not attempt a detailed prediction but merely calmly laughed, "I am optimistic."

**Increased Foreign Investor Confidence in Shanghai Reported**  
40060424b Shanghai SHIJIE JINGJI DAobao  
in Chinese 27 Feb 89 p 10

[Article by He Xiaoying 0149 1420 3467: "Foreign Businesses Investing in Shanghai Report Greater Confidence and Are More Complimentary of the Municipality, and Their Investment Is Growing Rapidly and Is Becoming More Rational"]

[Text] A good trend has emerged in recent years in which foreign businessmen investing in Shanghai "report greater confidence and are more complimentary of the municipality, and their investment is growing rapidly and is becoming more rational." In 1988 Shanghai approved a total of 309 projects of various types using foreign capital and attracted \$545 million in foreign investment, increases of 80 and 30 percent, respectively, over the previous year. Of these projects, 219 involved the establishment of foreign invested enterprises which directly brought in \$330 million, increases of 188 and 35 percent, respectively, over the previous year. And there were also advances in the use of foreign loans and in compensation trade. By the end of 1988, Shanghai had approved a cumulative total of 998 projects of various types using foreign capital and attracted \$2.83 billion in

foreign investment. Even more gratifying is the fact that the mix of foreign investment is beginning to become more rational and that industrial projects and the effort to "put both ends abroad" have registered marked advances. In 1988, 197 industrial projects were approved and these projects brought in \$214 million in foreign investment, accounting for 90 and 64 percent of the respective totals and representing increases of 240 and 80 percent, respectively, over the previous year. Of these projects, 20 were large or medium industrial projects involving \$5 million or more in investment, which number is equal to more than 40 percent of the total number of such projects approved during 1987 and before. In addition, there were also a number of projects linked to domesticization of production or to the expansion of exports.

While cleaning up and consolidating the work of using foreign capital, we must also maintain and develop the excellent trend in foreign investment in Shanghai. Thus this work must be coordinated with the strategic direction of the effort to readjust Shanghai's industrial structure, and we must strengthen macroscopic guidance over the work. We must aggressively create conditions that accord with international practice and continuously improve the investment environment. The establishment of the Foreign Investment Commission last year strengthened the internal coordination of the work. The commission worked with relevant agencies to help foreign investors overcome more than 200 large and small problems the investors encounter in the areas of business negotiations, preparation to set up operations, and operations and to provide investors "avenues by which to invest" and "opportunities to raise complaints" and thus has won praise from the investors. In the future, we must do a better job of providing service and might consider establishing a network of agencies to hear foreign businessmen's complaints, working to eliminate the worries and difficulties of the businessmen, doing more practical things, and striving gradually to institutionalize and socialize this work.

Improving legislation work and enhancing the clarity of policy remain an important aspect of our effort to improve the investment climate. We must focus on general problems plaguing foreigners in their investment and production operations, such as the authority of the enterprises in which foreigners invest to manage themselves and their employees, supply of goods and materials, and rules governing fees, and draw up, in accordance with international practice and with conditions in Shanghai, concrete regulations so as to make it more specific and standard, to strengthen policy, and to make the system more clear.

**Shanghai Official Discusses Municipality's Foreign Trade**  
40060424a Shanghai SHIJIE JINGJI DAobao  
in Chinese 27 Feb 89 p 10

[Talk by Shen Beizhang, chairman of the Shanghai Foreign Economic Relations and Trade Commission, delivered to reporter Yang Ming 2799 2494; date, place not indicated: "Faced With a Grim Situation, We Have Opened Up New Avenues"]

[Text] In 1989, Shanghai's foreign trade work confronts many new difficulties and contradictions, conditions are even grimmer than in previous years, yet there are also many favorable conditions, so our foreign trade will continue to grow stably so long as we face up the difficulties, dare to explore, and open up new avenues. This was the view expressed by Shen Beizhang [3088 5926 4545], chairman of the Shanghai Foreign Economic Relations and Trade Commission, in a talk with this writer on the problems involved in Shanghai's effort to develop foreign trade on the eve of the Shanghai External Economic Relations and Trade Talks.

#### **Shanghai's Foreign Trade Work Has Entered a New Historical Stage**

Shen Beizhang said that Shanghai's foreign trade work is advancing toward a new historical stage after having undergone a "u"-shaped pattern of growth over the past 10 years. The port's exports reached \$4.266 billion in 1980 but declined in each of the next 4-5 years because more provinces and municipalities began to engage directly in foreign trade as a result of the expansion of local authority to manage such trade, bottoming out at \$3.361 billion in 1985, 21.3 percent below the 1980 level. Although the municipality's exports rebounded during the next several years, they never reached the historic high. This situation persisted until 1988, when the pattern was finally broken, the port's exports reached \$4.602 billion—exceeding the record year of 1982 by 7.87 percent, and the municipality's effort to develop its foreign trade entered a new stage.

#### **Difficulties and Favorable Conditions Coexist**

The managers of many foreign trade enterprises say that times are rougher than ever before, which certainly is true. The difficulties confronting foreign trade work definitely are tremendous, and the most salient are as follows.

1. Tight funds. Tightening of the money supply has reduced credit for foreign trade work, thus hampering procurement of export commodities.
2. Insufficient raw materials. This shortage is especially great for the textile industry, and for some major exports supply quotas have not been met.
3. Rising prices. The prices of products procured for export have risen steadily, which fact naturally increases the cost of our exports, thus making it difficult to institute profit-loss targets.

Chairman Shen stated that we also confront some unanticipated difficulties and contradictions. Nevertheless, he noted, we should remain confident and recognize that we also enjoy some favorable conditions, which are as follows. (1) Even though the state maintains a contractional policy, the entire economy continues to grow, the central authorities have made special efforts to ensure

that foreign trade and exports expand stably, and preferential policies have not been altered and probably will be made even more favorable. (2) Demand on international markets continues to rise stably, and the readjustment of the Asian-Pacific economic structure presents us with a good opportunity to develop externally oriented economy. (3) On balance, the program of rectifying the economic order and improving the economic environment is advantageous to foreign trade work, and the effort to prevent competition among Chinese exporters and to strengthen administration through planning and other macroscopic control measures, in particular, has done much to help develop the main channels of foreign trade. (4) The leaders of the Shanghai municipal government attach great importance and devote much attention to foreign trade and have decided to greatly expand the foreign trade agency system, which move will give industrial enterprises more incentive for expanding exports and for earning foreign exchange and thus will help ensure supply and stabilize procurement prices of export commodities.

#### **Actively Explore New Avenues by Which To Develop Foreign Trade**

How can we blaze forth a new trail out amidst these grim circumstances? This will require courage, wisdom, and much solid work. We must conscientiously stress the following types of work.

- Aggressively implementing the foreign trade agency system, conscientiously carrying out all work related to the "double line contracts" of production enterprises and foreign trade firms, permitting more production enterprises to directly enter the arena of international competition, and exploiting the advantages of both industrial and foreign trade enterprises so as to transform both into a tremendous force driving the expansion of exports and foreign exchange earning.
- In step with Shanghai's effort to readjust its industrial and product mix, accelerating the effort to "put both ends abroad" and to achieve large-scale imports and exports, vigorously expanding export of highly processed goods, and steadily making Shanghai's economy more oriented to the outside world.
- Further improving the managerial mechanisms of foreign trade enterprises, employing flexible managerial methods, getting the best prices possible, tapping enterprise potential, carrying out "double increase and double economy," striving to improve economic returns, and enhancing enterprise capacity to overcome funding difficulties themselves.
- Continuing to develop horizontal ties. The large number of enterprises integrating trade, industry, and agriculture have become an important supply source for export commodities. In the future, we must expand these ties, begin to create conglomerates, and



bring the work of establishing export supply bases to a new level.

- In our foreign operations, we must "honor contracts and keep promises," ensure product quality, and make deliveries on time. Only thus will we be able to win customers and markets and to improve Shanghai's international image.

## AGRICULTURE

### Hebei Pork, Egg Prices

40060439e Shijiazhuang HEBEI RIBAO in Chinese  
5 Mar 89 p 1

[Summary] The price of pork in Hebei markets dropped from 6.78 yuan per kilogram in December to 6.50 yuan in January, and 6.31 yuan in February. Egg prices dropped from 5.16 yuan per kilogram in December to 4.89 yuan in January and 4.75 yuan in February.

### Cotton Area in Hebei

40060439c Shijiazhuang HEBEI RIBAO in Chinese  
9 Mar 89 p 1

[Summary] In 1989 Hebei Province plans to sow 13 million mu to cotton. Beginning in September, the procurement price for each dan of ginned cotton will increase 40 yuan over the procurement price in 1988. New cotton fields developed on uncultivated land will be exempt from agricultural taxes for three years.

### Hebei Pesticide Output

40060439b Shijiazhuang HEBEI RIBAO in Chinese  
25 Feb 89 p 1

[Summary] In January, Hebei Province produced 1,320 tons of pesticide, a 15.3 percent increase over the same period in 1988. The provincial government will use \$1.7 million in foreign exchange to import pesticides, and \$1.1 million to import raw materials for pesticide production.

### Jiangsu Vegetable Area

40060439d Nanjing XINHUA RIBAO in Chinese  
6 Mar 89 p 1

[Summary] According to statistics from 13 cities in Jiangsu Province, at present the area sown to vegetables is 91,478 mu, a 13.6 percent increase over the same period in 1988; the planned area for spring planting is 31,665 mu, a 15.2 percent increase over 1988. During March and April, Jiangsu will transfer 9.2 million kilograms of vegetables in from other provinces.

### Yunnan Agricultural Loans

40060439a Kunming YUNNAN RIBAO in Chinese  
8 Mar 89 p 1

[Summary] In 1989 agricultural banks and credit cooperatives in Yunnan Province will allocate 2.1 billion yuan in agricultural loans, an increase of 10 percent over 1988.

**'Dropout Fever' Among Elementary, High School Students**

40050261 Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 138, 10 Jan 89 pp 52-56

[Article by special correspondent Li Fei 2621 7378:  
"Save the Children, Save China's Ancient Civilization;  
on the 'Dropout Fever' Among Elementary and High  
School Students"]

[Excerpts] [Passage omitted] Before the 9-year compulsory education law was enacted in the early 1980's, Jiang Nanxiang [5592 0589 5046], then minister of the Ministry of Education, said that the graduation, attendance, and entrance rates of school-age children in China at that time were "30, 60, and 90 percent" respectively. In other words, of school-age children at that time, only 90 percent had started school, only 60 percent were attending school and continuing their studies, and only 30 percent actually finished their studies and graduated. [passage omitted]

But some years later, not only has this backwardness in China's education conditions not basically changed, but it is still getting worse in many places. The "dropout fever" among elementary and high school students has become an increasingly common and serious social phenomenon throughout China. [passage omitted]

A survey conducted by the Hunan Province Statistics Bureau in 11 counties and cities, such as Ningxiang, Youxian, Xiangtan, and Yuanling, found that 15.6 percent of the 7 to 15-year-old children in rural areas in these counties and cities were not attending school in 1987. Of these, 29 percent had never attended school and 71 percent had dropped out for various reasons. The survey also found that the older the children, the higher the dropout rate. For instance, the dropout rate for the 9 percent of 7 to 15-year-olds who were not attending school was 33 percent, the dropout rate for the 27 percent of 13 to 15-year-olds who were not attending school was 90 percent, and the dropout rate for the 40 percent of 15-year-olds who were not attending school was 93 percent!

A survey conducted in Fuzhou, Fujian found that only 41,000 of its over 52,000 students who were enrolled in junior high school in 1984 had graduated by 1987. Only 73.4 percent of its junior high school students graduated while 21.6 percent dropped out.

A survey conducted in 1987 in Tianjin Municipality found that its dropout rate among junior high school students was 3.6 percent and its rural district and county dropout rate was 5.9 percent.

These survey findings were only up to 1987, while the "dropout fever" among elementary and high school students has been getting worse since 1988.

For instance, since the 1988 school year began in Dalian, 8,500 rural junior high school students, or over 1,000 more than in the 1987 school year, dropped out, and the dropout rate was 6 percent.

Over 10,000 junior high school students in Shenyang, or 3 times as many as in 1986, dropped out in 1988, and the number of dropouts is still continuing to grow.

The miners in the Jixi Coalmine in Heilongjiang Province have over 100,000 children. In 1988, tens of thousands of elementary and high school students dropped out there to become vendors and workers, the grades of those who stayed in school were much worse, only 70 percent of junior high school students were willing to take high school entrance exams, and their grades were an average of 30 percent lower. This has made their coalminer parents very worried.

As another example, 44,000 elementary and high school students dropped out in 1988 in Changde Prefecture, Hunan Province, and the dropout rate was 4.3 percent. Moreover, 236,000 elementary students dropped out in 1988 in Hubei Province, and the dropout rate among elementary students in prefectures, such as Yunyang and Xianning alone, was higher than 5 percent.

A survey conducted by the Education Bureau in Guangfeng County, Jiangxi Province found that 2,100 elementary students and over 2,300 junior high school students throughout the county dropped out in one term in 1988 alone. The dropout rates among rural elementary and junior high school students were 2.2 percent and 9.1 percent respectively. One-half of the students enrolled in the 6 junior high school classes in one township in 1985 had dropped out by 1988, and the dropout rate for the 3 years actually reached 51 percent! Almost 100 students in the key junior and senior high schools in the county seat that have had very few dropouts over the years had also dropped out by the time the 1988 school term began.

A concerned party in the State Statistical Bureau revealed that the school attendance rate among 6 to 14-year-old school-age children throughout China is now only 76.7 percent, while 23.3 percent of school-age children either never went to school or dropped out along the way. In other words, extrapolating from a sample survey of 1 percent of China's population conducted in 1987 by the Population Department of the State Statistical Bureau, China now actually has over 40 million school-age children who either never went to school or dropped out along The way! [passage omitted]

There are certainly many reasons why elementary and high school students drop out of school, but the major ones are generally as follows:

1. The force of the ideological trend throughout society that "money is everything" has caused many adults and children to focus on making money: A craze for

"everyone to go into business" has been sweeping across mainland China in the past few years. [passage omitted] Many parents and children think only of the present, emphasize material benefits, and think that "getting rich is better than becoming a useful person." Parents are no longer willing to make "unprofitable investments" in their children's education. Instead, they make their children go along with them to conduct business, work, or make money. Some girls have to do housework, tend small vendor's stands, and act as reserves. This has made very large numbers of elementary and high school students drop out of school.

2. The illegal use of large numbers of child laborers by township enterprises has caused both adults and children to scramble eagerly to earn money: The township enterprises that can now be found everywhere throughout mainland China have become another pillar of China's industry and a way for peasants in all areas to get rich. But in order to lower costs and make higher profits, many leaders of township enterprises are actually using large numbers of child laborers secretly and illegally with no regard for China's laws. This has caused many elementary and high school students to drop out of school and go to work in factories. Statistics show that in 1988 alone, child laborers accounted for 10 percent of the workers in township enterprises throughout some counties, and actually as many as 20 percent in some township enterprises! A large percentage of township enterprises also hire female child laborers, and the number of enterprises and areas that use child labor is still growing. This is particularly widespread and serious in coastal provinces, such as Guangdong and Fujian.

3. The present hardships in being promoted to higher grades in China's schools have awed many parents and children: Since there is too little money for education, the number of available schools cannot basically meet the needs of the huge number of children who need to be educated, it is hard to be promoted to higher grades, and the percentage of those who do is low, China can be said to have the highest educational "elimination rate" in the world. In the rural areas, only 40 percent of elementary school graduates are promoted to junior high school, less than 20 percent of junior high school graduates are promoted to senior high school (including technical and vocational high schools), [passage omitted] and less than 1 percent of high school graduates go on to college. The percentages of urban elementary school graduates who go on to junior high, high school, and college are only slightly higher than in the rural areas. Thus, the promotion tests that are taken once a year in mainland China are known as "thousands upon thousands of horses and soldiers trying to cross a single-plank bridge at once." [passage omitted] In other words, as many as 10 million elementary, junior high, and high school students "fail" the promotion tests and are mercilessly abandoned by society every year. This has caused large numbers of students who have no hopes of promotion to drop out of school in advance and either stay at home or go out to work. Parents also back up their children in dropping out of school.

4. The present poor treatment of China's intellectuals has caused parents and students to be generally even more bitterly disappointed: Even if the children of those parents who want their children to become useful people like to learn, persevere in their studies for 10 years or so despite the hardships, take a lot of pains, spend a lot of money, "win a hundred battles," and are lucky enough to get into college, what will happen to them after they graduate? A college graduate's current salary is not enough to buy a bottle of expensive wine or a carton of famous brand cigarettes or even to hire a babysitter. Even if college graduates study hard for another decade or so and earn titles, such as engineer, lecturer, physician-in-charge, or assistant research fellow, they are still in the position where "their doctor's scalpel cannot earn as much as a barber's shears" and "making atomic bombs pays less than selling tea and eggs." If after graduation they are sent to teach school and especially if they are assigned as teachers in rural elementary or high schools, their futures will be even more miserable. Intellectuals in mainland China today are portrayed as being "poor," "miserable and shabby," "cheap labor," and "pitiful." These abnormal social conditions have directly resulted in the widespread reappearance in mainland China of the view that "learning is useless" and "going to school is a disadvantage," and have even greatly redampened the enthusiasm for "going to school" and "seeking knowledge" that had just begun to surface a few years back. People generally feel that it is better to spend a little money now to make a lot later than to spend a lot now to make a little later. Thus, the ideas are circulating among the people that "going to elementary school, high school, and college is not as good as holding a steering wheel (being a driver)," "studying abroad for a PhD is not as good as being a drudge who carries trays (a waitress)," and "as long as one can set up a vendor's stall in front of one's door, who needs a professor!"

5. The large increases in all education costs have made a considerable number of poor students reluctantly drop out of school: Along with the skyrocketing of commodity prices in the last few years in mainland China, all elementary and high school education costs have also naturally increased. Although the "9-year compulsory education law" stipulates that elementary and junior high school students do not have to pay tuition, the actual cost that each student must pay is several times higher than when tuition had to be paid in the past. Moreover, the few yuan of tuition and fees that senior high school students had to pay each school term a few years ago has now generally increased tenfold! Not only have costs gone up so much, but there is an endless stream of them. Just look at the list of costs for a second grade elementary school pupil in a certain place: "5 yuan for food between classes (crackers, dried peaches, and milk); 3 yuan for homework assistance and guidance; 1 yuan for steamed rice; 6 yuan for popsicles; 12 yuan for teaching materials, movies, and spring outings; 20 yuan for voluntary purchase of music and physical education class equipment; 15 yuan for student uniforms; 9 yuan for 5 sets of picture-story books; 16.5 yuan for 3 tape



cassettes; 4.6 yuan for 1 sterilized drinking cup; 20 yuan for princess aprons; xx yuan for 1 set of ZHONGGUO LAONIAN (CHINA'S AGED) magazine; etc." (The school says that this CHINA'S AGED magazine can be given to grandparents and is a special way to teach children to "respect the aged." Actually, it is unmarketable material that the school is commissioned by bookstores to sell and take a percentage of.) Aside from this set of CHINA'S AGED magazines, the above costs amount to 112 yuan, which is a month's pay for an ordinary middle-aged mainland Chinese cadre and still does not include the costs of many standard items, such as books, assignment books, writing materials, and the school's water and power supplies and incidental expenses. These increasingly higher "tuition costs" have obviously made it impossible for many poor students to go to school and left them with no alternative but to tearfully drop out. Thus, someone wrote the following poem of despair called RECORD OF ACTUAL EVENTS AT A CERTAIN HIGH SCHOOL: "Starting school requires registration fees, parking bicycles requires parking fees, school physical examinations require medical fees, hot meals require coal fees, night reading requires light fees, examinations require examination paper fees, compulsory taxes require contribution fees, holiday observances require teacher respect fees, discipline violations require punishment fees....Ouch! This fee, that fee, a hundred 'fees' make going to school costly, parents are out-of-pocket, and the character of 'honest government' has declined!"

6. Other reasons: For instance, the shortage of schools and teachers and the present school-entrance hardships experienced by school-age children have become common phenomena in all large cities and many areas throughout China. Elementary school enrollment requirements have changed from "backdoor influence" to "negotiated prices" and the cost of "school entrance rights" varies from hundreds to thousands of yuan. Those who have power and influence can get their children into school by the "back door," those who have money and property can buy their children into school through "negotiated prices," while only the powerless and penniless common people experience hardships. The sound of their frequent tearful queries, "Why do our children have to be illiterate?", is distressing. Taking another example, the long neglect of classrooms, the existence of "dangerous rooms in school after school," and the occasional occurrence in all areas of incidents of buildings collapsing and causing student deaths and injuries have left many parents living in constant fear about their ability to protect their "only offspring" and made them prefer to allow their children to remain illiterate or semiliterate rather than let them study in dangerous rooms. In addition, the disadvantages of the educational system, the poor quality of teachers, and the uselessness of the knowledge that is learned have made many parents feel that sending their children to school is a waste of time and money and that it would be better for them to go out now to work or learn a trade. [passage omitted]

It is precisely for the above reasons that China's great army of over 200 million illiterates and semiliterates is now being joined in a steady stream by a huge number of "new recruits." [passage omitted]

The slogan that "more learning makes people more reactionary" was prevalent in China during the Cultural Revolution. By the time people had awakened from that nightmare and come to understand the power and value of learning, China had "trained" a large number of young people who were both "illiterate and lawless" and set back a whole generation.

But after a decade of reform, the ideological trend that "learning is useless" and "more learning makes people poorer" has now unexpectedly resurfaced in China, "struck root in the people's hearts," and become a serious current social issue. If it is not resolved as quickly as possible, it will be impossible for the following reasons to imagine China being able to achieve modernization: [passage omitted]

1. China has a huge shortage of talented personnel. Statistics show that only 5 percent of China's industrial staff members and workers are now college graduates, while 80 percent have only a junior high school education or less. In the rural areas, an average of only 1 out of 10,000 people are technical high school students and only 1 out of 30,000 are college students, and an average of only 0.4 personnel per enterprise in the township enterprises that are now springing up everywhere have professional training. As to education throughout China, 34 percent of junior high school teachers alone have no professional training, 60 percent of senior high school teachers have no undergraduate college training, and 80 percent of all rural teachers in schools run by the local people actually have no record of formal schooling! There is an even more amazing shortage of higher-level talented personnel. There are now only 70,000 people throughout China who have any kind of high-level professional titles, while it is predicted that China will need a minimum of hundreds of thousands of such people by the end of the century to fulfill its national economic and social development needs. It is now still far short of this goal!

2. China has a shortage of successors to the aging personnel in its ranks of scientists and technicians. A recent survey of over 8 million scientists and technicians throughout China that was conducted by the State Science and Technology Commission found that the average age of China's scientists and technicians is too high. Most of them are around 50 years old, while a clear age gap and a serious temporary shortage has appeared among 20 to 45-year-olds. In addition, the shortage of successors to the ranks of scientists and technicians is even more distressing. College and university students being fed up with studying, college students dropping out to go into business, and graduate students leaving school to work in corporations can be seen everywhere. Increasing numbers of young people are taking the "red road"

(joining government service) and the "yellow road" (going into business), while disdaining the so-called "black road" of doing scientific research, becoming scholars, and studying technology. [passage omitted]

3. China's economic and social orders are chaotic and turbulent. Since many people are now both "illiterate and lawless," they dare to do anything as long as they can make money. Thus, rampant smuggling, grave robbing, floods of counterfeit merchandise, everything being "resold at a profit," tax theft and evasion, bribery, etc. are truly prevalent everywhere. As to the social order, the crime rate has risen, the number of major and important cases has skyrocketed, and theft, gambling, robbery, murder, swindling, prostitution, narcotics trafficking, etc., have polluted society. Moreover most of these crimes are committed by teen-agers who often do not hesitate to stab their opponents to death over minor matters and then smile and "face death unflinchingly" when sentenced to die. A survey of over 1,000 offenders in a certain reform-through-labor farm found that 88.3 percent had very little or no education. [passage omitted]

4. China's education is falling further behind and the burden is becoming heavier. The increasing number of elementary and high school students who are fed up with and drop out of school has had a clear and direct consequence. An outstanding "gap" appeared in the general senior high school enrollment throughout China in 1988. For instance, in Beijing's Xicheng District alone, by the time 1988's general senior high school enrollment had reached the 510 mark, 200 students were still needed to fulfil the enrollment quota; by the time these 200 students were enrolled, the previously enrolled

510 had decreased to 408. Students now generally feel that although there was no way out for them if they could not get into college in the past, college graduates now have no job guarantees and are paid poorly, so they would rather go to vocational or technical senior high schools where they can settle on an occupation and see results sooner. [passage omitted] It is precisely this atmosphere which is spreading throughout the schools that has caused the appearance of conspicuous actions, such as "profiteering" and "exchange at equal value," among elementary students in all areas. Some elementary students even say that "Since everyone is now into making money, how can they try to teach us to be patriotic and serve the people!" Thus, whenever an elementary school teacher mentions patriotism and serving the people, the whole schoolroom rocks with the laughter of this gang of children. [passage omitted]

A United Nations Education, Science, and Literacy Organization survey found that there are now more than 880 million illiterate people throughout the world. China's 1982 census showed that approximately 240 million people in mainland China at that time were illiterate or semilliterate. If this is added to the new illiteracy and semilliteracy that has emerged in the past few years, the number of China's illiterate and semilliterate people is estimated to be almost 300 million! In other words, China now has one-third of all the illiterate and semilliterate people in the world! This is almost one-half of the 666 million illiterate people in Asia and far more than the 162 million illiterate people in all of Africa! One out of three illiterate people in the world are Chinese! Three out of ten Chinese are illiterate or semilliterate! [passage omitted]

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